

2004

2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT

TEXAS

For the Year Ended August 31, 2004

CAROLE KEETON STRAYHORN, Texas Comptroller

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Acknowledgments

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Special appreciation to:

All accounting and budget personnel of state agencies
and universities whose extra time and effort made this report possible.

The State Auditor, John Keel, CPA and his auditing staff.

Divisions of the Texas Comptroller of Public Accounts
for their valued input into this Comprehensive Annual Financial Report:
Revenue Analysis; Taxpayer Publications; Quick Copy

Photos courtesy of:
Texas Department of Transportation
Houston Convention and Visitors Bureau
Quarter-dollar coin image from the United States Mint

State of Texas

Comprehensive Annual Financial Report

For the Year Ended August 31, 2004

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal	3
Elected State Officials	15
Government Structure of Texas.....	16
Certificate of Achievement	18

FINANCIAL SECTION

Independent Auditor's Report	21
------------------------------------	----

Management's Discussion and Analysis

Management's Discussion and Analysis	25
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Basic Financial Statements

Government-Wide Financial Statements	
Statement of Net Assets	42
Statement of Activities	44
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	47
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.	49
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	50
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	51
Proprietary Fund Financial Statements	
Statement of Net Assets	52
Statement of Revenues, Expenses, and Changes in Fund Net Assets	54
Statement of Cash Flows.....	56
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	58
Statement of Changes in Fiduciary Net Assets.....	59
Notes to Financial Statements	63

Required Supplementary Information Other Than MD&A

Budgetary Comparison Schedule	120
Modified Approach to Reporting Infrastructure Assets	123

Other Supplementary Information – Combining Financial Statements

Governmental Funds

Nonmajor Governmental Funds	
Combining Balance Sheet.....	130
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	131
Nonmajor Special Revenue Funds	
Combining Balance Sheet.....	134
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	137
Budgetary Comparison Schedule	138
Nonmajor Debt Service Funds	
Combining Balance Sheet.....	144
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	146
Nonmajor Capital Projects Funds	
Combining Balance Sheet.....	150
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	152
Nonmajor Permanent Funds	
Combining Balance Sheet.....	156
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	157

Enterprise Funds

Colleges and Universities – Major Enterprise Fund	
Combining Statement of Net Assets	162
Combining Statement of Revenues, Expenses, and Changes in Net Assets.....	166
Combining Statement of Cash Flows	170
Nonmajor Enterprise Funds	
Combining Statement of Net Assets	176
Combining Statement of Revenues, Expenses, and Changes in Net Assets.....	180
Combining Statement of Cash Flows	184

Fiduciary Funds

Pension and Other Employee Benefit Trust Funds	
Combining Statement of Fiduciary Net Assets.....	192
Combining Statement of Changes in Fiduciary Net Assets	194
External Investment Trust Funds	
Combining Statement of Fiduciary Net Assets.....	198
Combining Statement of Changes in Fiduciary Net Assets	199
Private-Purpose Trust Funds	
Combining Statement of Fiduciary Net Assets.....	202
Combining Statement of Changes in Fiduciary Net Assets	203
Agency Funds	
Combining Statement of Fiduciary Net Assets.....	207
Combining Statement of Changes in Assets and Liabilities.....	208

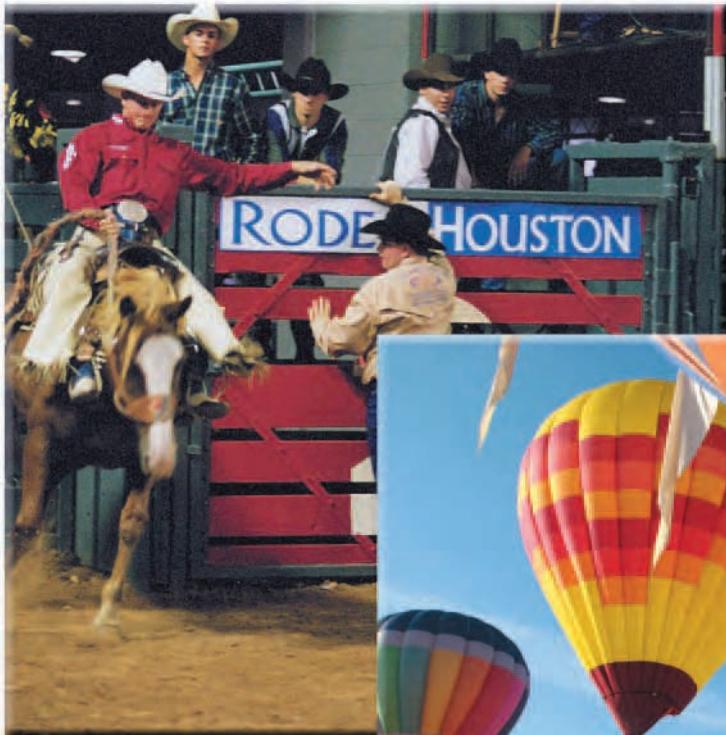
Discretely Presented Component Units

Combining Statement of Net Assets.....	214
Combining Statement of Activities	220

STATISTICAL SECTION

Governmental Fund Revenues by Source and Expenditures by Function	225
State Tax Collections Per Capita.....	226
General Bonded Debt Per Capita	226
Ratio of Annual Debt Service Requirements for General Bonded Debt to Total Governmental Fund Type Expenditures.....	227
Revenue Bond Coverage	228
Texas Gross State Product by Industry	229
Texas Salary Earnings by Industry	230
Total Personal Income, Population, and Per Capita Income.....	231
Employment and Unemployment Rates	231
Residential and Nonresidential Construction	232
Market Value of Taxable Property.....	232
Texas Banking Activity	233
Total Retail Sales.....	233
Texas Public School Enrollment By Grade and Ethnic Grouping	234
Higher Education Enrollment	235
Number of Higher Education Institutions	235

Introductory Section



*Fun at the Rodeo
in Houston.*



*Ballunar Festival,
near the Johnson Space
Center in Clear Lake.*



February 23, 2005

To the Citizens of Texas, Governor Perry,
and Members of the 79th Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the State of Texas for the fiscal year ended August 31, 2004, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects and all disclosures necessary for a reasonable understanding of the state's financial activities have been included.

The reporting approach established by the National Council on Governmental Accounting in Statement No. 1 and endorsed by the Governmental Accounting Standards Board (GASB) has been utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. This report is divided into three sections. (1) The Introductory Section provides this transmittal letter, Elected State Officials, government structure of Texas, and the GFOA Certificate of Achievement. (2) The Financial Section includes the auditor's opinion; Management's Discussion and Analysis (MD&A), which provides an introduction and an overview and analysis of the Basic Financial Statements; the Basic Financial Statements, which present government-wide financial statements for the primary government along with

the component units of the State of Texas and fund financial statements for governmental funds, proprietary funds, and fiduciary funds, together with the Notes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and Other Supplementary Information, which includes the combining financial statements. (3) The Statistical Section provides various financial, economic, and demographic data about the state.

Reporting Entity

This report includes government-wide statements and fund financial statements of various departments, agencies, and other organizational units, which are considered part of the State of Texas financial reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by the GASB. The criteria include legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the Notes to the Financial Statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the State of Texas is discussed in Note 19.

All activities that would generally be considered part of the State of Texas are included in this report. These activi-

ties provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, and general government.

Pension and Other Employee Benefit Trust Funds

The State of Texas contributes to five pension plans: Teacher Retirement System, Employees Retirement System, two Judicial Retirement Systems, and the Law Enforcement and Custodial Officer Supplemental Retirement Fund. The state also administers, but has not been required to contribute to, the Fire Fighters' Relief and Retirement Fund. The Other Employee Benefit Trust Funds include the Deferred Compensation Trust Fund, the State Employee Cafeteria Plan Trust Fund, and the Texa\$aver Administrative Trust Fund that are administered by the Employees Retirement System.

Economic Outlook

Calendar year 2004 was a turnaround year for Texas employment. The state had added jobs every year since 1987, but endured a net loss of employment in 2002, only to be followed by continued job losses in 2003. Over the past year, however, Texas is back on the growth track, adding 119,500 jobs from November 2003 through November 2004, as reported in the Texas Workforce Commission's monthly Texas Labor Review, for a year-to-year growth rate of 1.3 percent. Although the growth rate was modest by the rates seen in the 1990s, every major industry expanded its employment rolls in 2004 except for manufacturing. Even the Information industry, which suffered from high-tech related doldrums through the past three years, experienced some year-to-year job growth by the end of 2004.

Texas and the nation followed similar growth tracks economically in 2004. Both Texas and the nation began to add jobs after suffering through two and a half years of job declines. The nation began losing jobs first, but job losses in Texas followed a few months later. Likewise, Texas' job recovery is tracking a few months later than the nation's, but a graph of job growth rates in Texas and the nation has an almost identical shape. The pattern of manufacturing job losses is a national phenomenon, caused in part by greater productivity per worker, both in Texas and the nation. Texas

ranked 24th among the states in its rate of employment growth over the past year. Although the state's job growth during 2004 was muted compared to its typical rates in recent decades, Texas still added more jobs than all but two states.

Leading Indicators Point Upward Again

The Comptroller's Leading Economic Indicators Index improved substantially in the latter part of 2003 and remained stable during 2004, suggesting that moderate growth will continue. The growth will not be extraordinary, but the index, designed to forecast the state's employment growth four to six months in advance, predicts a relatively healthy state economy in 2005.

Consumer confidence is above its baseline level. After sinking to near-record lows in March 2003, consumer confidence in the West South Central States (Texas, Oklahoma, Arkansas, and Louisiana) remained above its baseline 1985 level throughout the second half of 2004. Although the index generally bounces up and down in reaction to political, economic, or business events, consumers' assessment of present and future economic conditions was mostly stable and guardedly optimistic during 2004. In addition, every month of the year saw year-to-year increases in sales tax receipts, evidencing growth in retail trade. Non-automobile sales activity, based on eleven months of sales tax collections, racked up an increase of 8.6 percent from 2003 to 2004. The number of operating oil and gas rigs, which had spiked up 33 percent in 2003, added another 13 percent in 2004. With an average of 533 drilling rigs in operation, 2004 closed as the most active oil and gas exploration period in more than twenty years.

During the first ten months of 2004, Texas had a record number of new business incorporations, averaging 8,956 per month. These incorporations do not necessarily indicate a robust economy, as the number reveals nothing about the economic viability of newly incorporated businesses. Still, the state's ongoing entrepreneurial spirit is reflected in the unusually large number of Texans taking on the challenges of a new business.

At the close of calendar year 2004, eight of the state's ten leading economic indicators were pointing toward an improved state economy. Positive signs included retail sales growth, renewed growth in help-wanted advertising, rises

in stock values and oil prices, a growth in housing permits, fewer initial claims for unemployment compensation, rising consumer confidence, and a rising national index of leading economic indicators. The two indicators pointing to slower economic growth were a shorter average manufacturing workweek and the beginning of a slowdown in the pace of new business incorporations.

Based on production, the state and national economies actually are stronger than the employment picture indicates. Even though employment growth has struggled to take off nationwide and in Texas, an expansion of output is ongoing. This is possible because of rapid productivity growth, where the ability of the economic engine to produce more with fewer labor hours has capped the need for new hiring. Over the past two years, productivity has grown at a 4.1 percent annual rate nationwide, exceeding the nation's gross domestic product (GDP) growth, which averaged 3.7 percent annually. With a bit of subtraction here, it is clear that businesses have no need to hire new workers until the demand for production exceeds that being met by the growth of productivity alone. Eventually, productivity growth is likely to settle back to its historical norms, and increased job growth will follow.

Unemployment Rate Improving

The Texas unemployment rate headed down in late 2003 and early 2004, dropping about a percentage point. The improvements stalled in the latter half of 2004, but the rate still ended 2004 at its lowest level in three years, 5.8 percent. Texas' unemployment rate had fallen from 7.7 percent in 1992 to a monthly low of 3.9 percent in December 2000, after which terrorist attacks trampled an already weakened economy, pushing the unemployment rate to a peak of 6.8 percent in May 2003. Since then, unemployment has improved, albeit slowly and somewhat erratically, as employers require evidence of a stronger cash flow before they renew sustained hiring.

Outlook for 2005 and 2006

I am forecasting the Texas employment picture to improve over the next couple of years. Even though employment growth is likely to improve, moderately higher interest rates are expected to dampen the increase in total economic

growth. Still, a weaker dollar is boosting exports, so real gross state product growth in the range of 3 to 4 percent per year should continue. Texas' economic growth is forecasted to be relatively healthy over the next two years, but the economy is far from overheating. Factors underlying renewed growth in Texas are an improving national economy, an up-tick of investment expenditures, a boost in export trade resulting from a decline in the dollar's value, and continued low inflation. Pressuring the economy downward will be relatively unimpressive national economic growth and the ratcheting up of mortgage and interest rates, pressured up by a high national deficit.

My forecast model predicts that Texas' real gross state product will slightly exceed forecasted U.S. growth in 2005 and 2006, by about two-tenths of a percentage point per year. With Texas' relatively low costs, a location at the buckle of the nation's vibrant southern and western regions, and sustained migration into the state, the state's gross product growth is forecast to continue outperforming U.S. gross domestic product growth, as it has done in all but two years since 1990.

An Overview of Texas Industries by North American Industry Classification System (NAICS) Sector

Last year's Comprehensive Annual Financial Report overview noted that five of the state's ten major industrial sectors had added jobs over the preceding year, and five had lost jobs. In 2004, nine of the NAICS-based industries have added jobs, with only manufacturing ending the year with fewer jobs than it had last year. One sector, Education and Health Services, grew by more than three percent during the year, followed by Professional and Business Services, which added more than two percent employment growth. These two industries accounted for nearly half of the total employment growth in Texas during the year.

Oil and Gas Prices Have Less Impact on the Texas Economy Today

Year 2004 recorded some of the highest oil and gas prices in history. As might be expected, this gave a boost to the state's oil and gas industry. Still, to those who remember Texas' 1980s economy that soared or toppled with the price

of oil, the overall impact of the recent price spikes on the state economy was relatively small. Natural Resources and Mining, the industry sector that includes oil and gas, added a relatively paltry 2,100 jobs over the past year, for a growth rate of 1.4 percent, barely exceeding the state's overall job growth rate. Even though the number of operating oil and gas rigs reached its highest monthly average (539) in nineteen years, the impact of the state's domestic exploration industry on the economy is only a shadow of its former self. Texas' oil and gas industry today is more oriented to the operations of headquarters offices overseeing worldwide production than to production within Texas. As evidence, the 539 operating rigs in Texas pales compared to the 1,449 in December 1981.

Oil and gas prices started 2004 at a relatively high level and continued to rise until nearly the end of the year, topping \$55 per barrel. Natural gas prices, too, reached record price levels during 2004. Higher prices do provide a boost to the industry, but since the investment psychology of the Texas oil and gas industry is more heavily weighted toward long-term worldwide investments than in short-term domestic wildcatting, the Texas oil and gas industry is less economically volatile today than its history might suggest.

The Natural Resources and Mining industry employed 149,000 Texans in November 2004, a perhaps unexpectedly small 1.6 percent of total non-farm employment in the state. And, for an industry that has often seen annual swings of 10,000 jobs—and sometimes more than 20,000—it's increase of 2,100 jobs accounted for less than 2 percent of the state's job growth during the year. However, because of the high value of production and wage rates that are well above average, natural resources and mining remains a major player in the Texas economy.

Construction Industry Adding Texas Jobs Again

The general economic slowdown and terrorism in 2001 sent Texas' construction industry into more than two years of declining employment. Construction employment grew during 2004, as favorable mortgage rates provided impetus for single-family residential construction to continue. Non-residential construction activity posted another mild decline during the year, but non-building construction, such as roads

and bridges, posted its second straight year of increases, adding 2 percent employment.

Texas construction employment was up 1.5 percent from November 2003 to November 2004, an increase of 8,200 jobs and a welcome change after posting year-to-year losses in every month of 2002 and 2003. Anyone observing the strong and persistent growth of Texas single-family housing construction over the last five years would never have guessed that reported construction employment actually declined in Texas in 2003 and early 2004, but general weakness in the national economy crimped investment for business-related construction.

Overall, taking advantage of low mortgage rates, consumers pushed up the number of single-family and multi-family housing starts in the state for the fourth consecutive year, tacking on 3.3 percent in 2004, to an annual average level of nearly 181,000 starts. With the drive for new housing and a strengthening demand for non-building construction (such as roads and overpasses), Texas construction employment grew to 557,300 in November 2004, up from 549,100 a year earlier.

Manufacturing Production Up; Employment Down

In one sense, Texas' manufacturing industry had a relatively good year, racking up its largest percentage increase in real gross product (2.8 percent) since 2000. This growth was not apparent in the employment numbers, however, as manufacturing lost 13,300 jobs statewide, for a decline of 1.5 percent. Manufacturing was the only major Texas industry to suffer a loss of jobs in 2004, even though the industry kept growing thanks to compelling productivity gains per worker.

A handful of industries accounted for most of the manufacturing job losses, particularly in the nondurable goods sectors. Chemicals and petrochemicals lost 3,400 jobs (down 4.4 percent), paper manufacturing gave up 1,500 jobs (down 6.6 percent), and printing and publishing lost 2,400 jobs (down 6.4 percent). Every nondurable goods sector tracked in the Texas Workforce Commission's Monthly Labor Market Review (MLMR) lost jobs over the past year. In sum, nondurable goods sectors lost 13,900 jobs, while durable goods manufacturing eked out an increase of 600

jobs. Among durable goods, electric equipment and appliance employment was the only MLMR sector losing more than 1,000 jobs, dropping 1,800 jobs, or a disconcerting 10.2 percent.

On the brighter side, the state's computer and electronic product manufacturing sector, reflecting new investment nationwide in the sector, began growing again for the first time since 2000. Over the past year, the sector added 2,900 jobs, a 2.6 percent growth rate, primarily in response to growth in the semiconductor, electronic components, and electronic instruments segments. Until February 2004, computer and electronics manufacturing had lost jobs in each succeeding month for more than three years (since January 2001), hemorrhaging 59,200 jobs, or more than one-third of total industry employment at the beginning of 2001. The fastest growing segment of computer and electronic manufacturing, in terms of employment increases over the past year, was the electronic instrument manufacturing component, which added 6.3 percent to its job total. Businesses have bolstered the industry with renewed investment at the same time that there has been a resurgence of demand for emerging technology products.

As the economy strengthened in 2004 and investment revived, the fabricated metals industry, which includes a wide range of metal work from sheet metal to electroplating, to valves, to tools and hardware is adding jobs again, up 1,900 (or 1.8 percent) over the past year. This sector had suffered in 2003 from the dearth of nonresidential construction and the resulting lack of demand for architectural and structural metals.

Other manufacturing sectors bucking the trend and adding jobs in 2004 included aerospace products (up 1,400 jobs), wood products manufacturing (600), foundries (600), communications equipment (400), primary metals manufacturing (300), and industrial machinery (300).

The outlook for manufacturing employment growth in Texas and the nation remains weak; however, as impressive productivity increases have kept, and will keep Texas manufacturers from hiring in proportion to production. As in the past, the outlook for manufacturing varies by sector and the product being produced. On the positive side, exporters should receive a boost, as declines in the dollar's value have made Texas exports more competitively priced worldwide.

Since the beginning of 2002, the dollar has dropped roughly 20 percent against major world currencies. Also offering a positive sign to manufacturers, the Institute for Supply Management's purchasing managers' index, which tracks the purchase intentions of businesses, stands at 58.6 in December 2004. An index value above 50 points indicates an expanding manufacturing industry.

Trade, Transportation, and Utilities in Forward Gear

Although it was not a blockbuster year, trade, transportation, and utilities enjoyed a turnaround during 2004, with both wholesale and retail trade posting solid gains in activity and employment. Utilities continued to lose jobs, but at a pace much slower than in 2003.

The trade, transportation, and utilities industry is the largest employer in the state economy, accounting for 1,955,400 jobs (20.6 percent of total non-farm employment) and, in 2004, accounted for 26,700 of the increase in new jobs during the past year (22.3 percent of the state's growth). The industry had suffered year-to-year losses in November 2001 (down 31,900 jobs), November 2002 (down 27,300), and November 2003 (down 20,600), so the increase of 26,700 in November 2004 was the first year-to-year gain in four years.

Air transportation had been a major contributor to those losses from 2001 to 2003, but this battered industry, which is still struggling with structural problems and high fuel costs, at least stopped hemorrhaging jobs in 2004. Even better news is that some elements of the state's transportation and warehousing industry have shown particularly impressive job growth over the past year, notably support services for transportation, couriers and messengers, and warehousing and storage, each of which grew by more than 3 percent since November 2003.

High debt levels and slow income growth dried up virtually any increase in consumer spending in 2003. For 2004, however, sales tax collections, of which more than 50 percent come from households, increased by a solid 8.6 percent in the twelve months ending in November 2004, indicating a substantial return of consumer spending. New vehicle sales tax, which had declined nearly 6 percent in 2003, almost returned to growth in 2004. Texas retail trade

employment rose by 1.4 percent in the twelve months ending in November 2004, turning around a decline of 0.8 percent for the same period of 2003. The building materials and garden equipment sector of retail trade added 3,800 jobs statewide (4.7 percent), clothing store jobs increased by 3,600 (4.6 percent), and non-store retailers—such as electronic, Internet, and mail-order retailers—had 4.2 percent employment growth. All retail sectors except gasoline stations and sporting/hobby/book/music/miscellaneous stores added jobs during the year.

Utilities, both electric and natural gas, lost another 300 jobs during the year (0.6 percent) as higher fuel costs squeezed profit margins, but this was substantially better than the 5 percent loss of jobs in 2003.

Information Industry Stable Again

The Texas information industry is in the black again, and while not popping celebratory corks, added about 900 jobs from November 2003 to November 2004 (0.4 percent). The stability may be welcome in an industry that enjoyed double-digit year-to-year growth rates in the middle of 2000, only to experience close to double-digit annual losses during much of 2002 and 2003. Information lost a larger percentage of its workforce than any other Texas industry in 2003. Ninety percent of these lost jobs were in telecommunications, where local, long distance, and wireless telephone communications suffered from plummeting revenues. Bandwidth contract prices slumped in the face of severe competition and resulting price wars in 2002 and 2003, and the inability to meet profit expectations caused communications providers to cut jobs. Over the past year, however, Internet service providers, web search portals, and data processing eked out a net 100 jobs, and the traditional publishing segment of Information added 800 jobs.

The telecommunications segment of Information remains weak. This industry, which includes wired carriers, paging services, satellite and cable operators, and cellular and wireless telephone services, lost another 4,100 jobs (-4.1 percent) during the year.

The Information industry also includes television, periodicals, newspapers, motion pictures, software, Internet publishing, and libraries. In sum, the increase of 900 jobs in the industry brought employment in the Texas information

industry to 231,600 in November 2004. While the increase is welcome, it is only a baby step in recovery, as Information employment remains 17 percent below its 280,000 peak in September 2000.

Financial Activities Boosted by Banks and Credit Unions

Financial activities, which includes real estate, rental and leasing has continued to grow during the state's job losses in recent years, but the rate of growth has been slow. In the same manner over the past year, financial activities added jobs, but at a rate somewhat slower than job growth in the overall economy. Overall, financial activities added 5,800 jobs from November 2003 to November 2004, for an employment increase of 1 percent.

The growth in the industry has mostly been driven by a 2.5 percent increase in jobs in the credit intermediation branch of the industry, which includes commercial banking and savings institutions. The insurance segment, as well as the rental and leasing segment, of the industry also added a small number of jobs over the past year, but the real estate and securities/commodities segments lost employment.

Consolidations and mergers continue to shrink the number of Texas banks, but balance sheets show relative stability and a healthy return on bank assets. Texas-headquartered banks had a mostly good year, with the percentage of institutions with earning gains rising from 48.6 percent a year ago to 61.3 percent in the third quarter of 2004.

Professional and Business Services on a Rebound

Last year, the state's professional and business services industry was clearly separated into two groups, being some of the strongest, as well as some of the weakest links in the state's economic chain. This year, all sectors of the industry except accounting added jobs. The professional and business services industry was the second fastest growing industry during 2004 (behind education and health services), growing at a rate of 2 percent from November 2003 to November 2004, and adding a total of 21,200 jobs.

Comprising over 40 percent of this industry is the professional, scientific, and technical services component. It includes a wide range of industries—including, to name

a few, lawyers, tax preparation services, architects, testing laboratories, design services, consulting, public relations, advertising, research, photographers, and veterinarians—and this sector grew at a healthy rate of 2.1 percent during the year, up 9,200 jobs. Management services is a much smaller part of the industry but grew at a rapid 3.2 percent rate, as management operations benefited from economic expansion, particularly in the first half of 2004.

Administrative and support services, including waste management and waste remediation services, comprises the largest part of professional and business services. The sector added 10,900 jobs, for a 1.9 percent increase, over the past year. Employment services (such as temporary help agencies) and business support services are a major component of this sector, and it experienced impressive employment increases of 5.2 percent, the fastest growing segment of the industry. Before hiring full-time employees, many businesses opt for bringing in part-time workers until it is clear that business activity will support full-time positions. Without unexpected shocks, the particularly rapid growth in employment agencies foreshadows increased full-time hiring in the near future.

Educational and Health Services Continues as the State's Fastest Growing Industry

Reflecting the state's comparatively high birth rate, Texas is a relatively young state, and this translates into a demand for educational services. On the other end of the age spectrum, the state's elderly population is one of the fastest growing segments of the state, with the population of Texans aged 65 and older growing about 3.3 percent per year. The elderly population draws more heavily on health services than the overall population, so health care and social assistance employment also has grown rapidly. With these two population drivers, the state's Educational and Health Services was once again the fastest growing Texas industry in 2004. Over the past twelve months, the industry added 34,600 jobs (3.1 percent) and accounted for nearly 30 percent of the state's net growth in non-farm employment between November 2003 and November 2004.

The fastest-growing individual sub sector of the state economy for the second consecutive year has been home health care services, which added 12,500 jobs, for an 8.2

percent increase from November 2003 to November 2004. Physician's offices (including dental, optometric, mental health, and ambulatory mobile offices) added 21,100 jobs (up 4.9 percent). Hospitals added 5,200 (2.0 percent), while social assistance services, including day care for children, added 3,700 (2.2 percent). Educational services, including private schools and colleges, saw an employment increase of 3,700 jobs, or 2.7 percent.

Restaurants Bolster Leisure, Hospitality, and Other Services

Restaurants and drinking places comprise the bulk of the leisure, hospitality, and other services industry and also accounted for the job growth in the sector. Since 2000, the industry has indeed experienced much slower than average growth, during a period when real disposable income growth languished. In 2004, real per capita wages grew for the first year since 2000 in Texas, and the leisure and hospitality services industry depends more than most on rising disposable personal income. Now the industry is growing at about the rate of the overall economy, having added 14,100 jobs (1.2 percent) over the past year, but this remained well below its booming growth rates of the past decade.

The arts, entertainment and recreation component of the industry actually lost jobs over the year (down 1,600, or 1.8 percent), as did the hotel and motel sector, which lost 600 jobs statewide (down 0.7 percent). Repair, laundry and personal services were mostly flat during the year. However, with the growth of restaurants and bars (up 14,200 jobs, or 2.1 percent), and religious, civic and professional membership associations and organizations (which added 2,500 jobs, or 1.5 percent), the industry posted net job growth.

Schools Still at the Root of Government Employment Growth

Government added 19,200 jobs between November 2003 and November 2004, even though both federal and state government employment in the state declined. Texas lost 300 federal government jobs—regardless of an increase of 1,500 civilian jobs with the Department of Defense—largely due to staff reductions at the U.S. Postal Service. State government, crimped by budgetary constraints, lost a

net 1,000 employees, even with a sizable increase of 2,200 jobs in state universities and colleges.

The local government sector continued its long-standing pattern of adding jobs. Local government grew 1.8 percent, with the addition of 21,200 jobs. Local government now accounts for nearly seven of every ten government jobs in Texas. Of the local government jobs, more than half are in school districts, and 87 percent of the job growth in local government over the past year was the result of increased hiring in schools.

Major Initiatives

Tax Amnesty

In my 2003 report, Limited Government, Unlimited Opportunity, I proposed a tax amnesty program for all taxes administered by my office. The Texas Legislature authorized the program and directed my office to provide for a waiver of penalty or interest, or both, but no waiver of tax liability. Under this authority, “Project: Pay Up,” a three-week amnesty program was established to collect unpaid taxes. From March 11 through March 31, 2004, taxpayers could pay their past due taxes in full and the penalty and interest charges normally assessed against delinquent taxpayers were waived. The last time Texas offered a tax amnesty program was in 1991.

Initial estimates were that the program would bring in \$50 million in delinquent state tax revenue and \$9 million in local tax revenue. Actual revenues far exceeded projections as the amnesty period brought in about \$379 million in state taxes and about \$59 million in unpaid local taxes. Of the state total, \$256.5 million came from delinquent sales tax payments.

Deduction of Sales Taxes from Federal Taxes

In 1985, Congress adopted an extensive proposal to reform the national tax system. Designed as “revenue neutral,” the idea was to reduce tax rates while eliminating almost all of what had become a complex system of itemized deductions, including all deductions for state and local taxes—whether based on income, property, or sales. In 1986, Congress embraced President Reagan’s proposal in the Tax Reform Act (TRA86). In the process, the proposal to elimi-

nate the deduction for all state and local taxes was watered down to affect only state and local sales taxes, leaving the deductions for income and property taxes untouched.

In March 2002, I issued a special report proposing to restore much of the federal sales and motor vehicle sales tax deductions. In June 2004, the original report was updated. The proposed deduction would allow taxpayers in all states the option of deducting either their state or local sales and motor vehicle sales taxes or their state and local individual income taxes on their IRS Form 1040.

In early 2003, Representative Kevin Brady and Senator Kay Bailey Hutchinson introduced legislation in Congress that would grant taxpayers in all states the option of itemizing a deduction for either their state and local sales (including motor vehicle sales) taxes or income taxes paid, but not both. In June 2004, House Ways and Means Committee Chairman Bill Thomas (R-California) added similar legislation to H.R. 4520, a far-reaching corporate tax measure. On October 11, 2004, Congress passed its decision to allow taxpayers to deduct sales tax on their federal income tax returns, and shortly after on October 22, 2004, President Bush signed that legislation.

The tax savings are expected to generate 16,573 new Texas jobs, \$623 million in new Texas investment, and \$923 million increased Texas Gross State Product, according to an economic analysis conducted by my Revenue Estimating Division. The increased economic activity in turn could be expected to boost general revenue by \$37.8 million in the two-year period of 2005-06.

Tax and Revenue Anticipation Notes

My office received more than \$12 billion in bids on the sale of \$6.6 billion in short-term notes in August 2004, making it the largest such sale ever conducted over the Internet. Sixteen winning bidders purchased the state’s Tax and Revenue Anticipation Notes (TRANs) at a net interest cost to the state of approximately 1.614 percent. Proceeds from the TRANs sale help the state manage its cash flow between the beginning of the fiscal year in September and the arrival of tax revenues during the year. All three major ratings services gave the TRANs their highest ratings.

Texas has issued TRANs each year since 1986. The notes are paid off before the end of each fiscal year. This

year's notes were issued on August 31, 2004, and will mature on August 31, 2005. This was the first year my office conducted the TRANs sale on the Internet. A significant feature of the Internet sale is that investors were able to reinvest their funds from the 2003 Texas TRANs issue directly into the 2004 Texas TRANs issue, since the maturity of the 2003 issue was the same day as the settlement date of the new 2004 TRANs issue.

Early Retirement Incentive

In an effort to reduce state government salary costs, the 78th Texas Legislature passed H.B. 3208 in May 2003, which gave active, contributing employees a one-time lump sum incentive payment equal to 25 percent of the base salary they received for the past 12 months if they retire when first eligible from August 31, 2003 through August 31, 2005. Those employees who were eligible to retire on August 31, 2003 were required to retire on that date in order to receive the incentive payment. Those employees who become eligible to retire during the 2004-05 biennium have to retire in the month in which they become eligible in order to receive the incentive payment.

To ensure that the state realized savings from the retirement incentive program, agency appropriations were reduced by 35 percent of the salaries of those retiring. The incentive bonus payments were paid from the remaining appropriations in agency budgets.

In December 2004, the Employees Retirement System (ERS) Board of Trustees and staff released their audited Comprehensive Annual Financial Report for fiscal year 2004. ERS reported that during fiscal year 2004, 3,914 employees retired, including 2,287 who took advantage of the retirement incentive program passed by the 78th Legislature. That brought the total number of state retirees to 60,089.

Transportation Finance

Texas' pay-as-you-go approach to transportation finance has changed significantly. Legislation passed in 2001 and 2003 supplements the Texas Transportation Commission's existing authority to issue turnpike bonds by adding bonds secured by the State Highway Fund and the new Texas Mobility Fund, as well as short-term notes to cover short-

ages in the State Highway Fund. In addition, newly created regional mobility authorities have been authorized to issue revenue bonds to construct, maintain, and operate road projects within their own jurisdictions.

Health and Human Services Reorganization

The 2003 Legislature adopted H.B. 2292, mandating significant changes in the management of the state's health and human services agencies. Twelve independent agencies were consolidated into a single health and human services enterprise composed of the Health and Human Services Commission (HHSC) and four new departments. HHSC's Executive Commissioner, appointed by the Governor, oversees the entire health and human services system. A commissioner, appointed by the Executive Commissioner, supervises each department.

Ten of the twelve agencies were abolished and their powers and duties transferred to three new departments: the Department of Assistive and Rehabilitative Services, the Department of Aging and Disability Services, and the Department of State Health Services. One agency, the Department of Protective and Regulatory Services, was renamed the Department of Family and Protective Services. The Health and Human Services Commission retained its name and was given responsibility to provide central administrative services to all four departments and to integrate eligibility determination for programs.

The consolidated Department of Family and Protective Services began operations in February 2004. The remaining agency consolidations were completed by September 2004.

TexasOnline

The TexasOnline portal began through a public private-partnership as a pilot Internet website launched in September 2000. TexasOnline merged in January 2002 with the State of Texas website and now offers citizens and businesses a single point of access to state and local governments in the state.

As of January 2005, TexasOnline provided more than 470 interactive electronic services of which most are free public service functions. These services include occupational and professional license renewals, driver's license renewals, and property and sales tax payments. In 2004,

TexasOnline introduced E-filing for courts statewide, an environment and natural resources portal, individual driver records online, and original occupational licensing.

TexasOnline remains the single portal in the U.S. serving both state and local governments. Since going live in December 2000, TexasOnline processed over 33.1 million electronic payment transactions, and by January 17, 2005, collected more than \$1.6 billion. Additionally, the site registered more than 1.8 million visits per month in fiscal year 2004.

At the forefront of electronic state government, TexasOnline has garnered national recognition. The portal won the 2003 Texas Association of Municipal Information Officers (TAMI) Award, received the Computerworld Honors Program Award for overall excellence, the 2003 ISA Award for Outstanding Intergovernmental Solutions from the Federation of Government Information Processing Councils, and placed fifth in the Center for Digital Government's "Best of the Web" contest. The "2003 State and Federal E-Government in the United States" study, from Brown University's Center for Public Policy, ranked TexasOnline second in overall e-government performance.

Licensed Customs Broker Certificates

My office created the Licensed Customs Broker Export Certification System (LCBECS) in 2004. This system facilitates the reporting of export certifications by Texas Licensed Customs Brokers to my office.

Licensed Customs Broker Export Certification is a form issued by a customs broker that certifies that purchased goods are to be exported, and the applicable tax is eligible for refund.

A licensed Texas customs broker is a person licensed by the U.S. Customs Service to act as a customs house broker and collect information on items being sent out of the country that require tax reimbursement to the person who owns the item.

In 2004, Texas customs brokers issued 1,112,517 certifications to purchasers, which are eligible for a tax refund. The total tax available for refunds were valued at \$72.9 million and represented taxes paid on items valued at more than \$921.8 million.

Unclaimed Property Auctions

In 1999, Texas became the first state in the nation to auction unclaimed property online. Initial auction offerings were placed on well-known websites, such as eBay, then only four years old. The innovative use of technology allowed my office to reach a global audience and ensure the best possible price for the missing owners.

Building on that success and lessons learned through later auctions, continuous online auctions began in August 2003. Shortly afterwards, the State of Texas received the "Power Seller" designation from eBay. Power sellers are eBay's top sellers. To qualify for this designation, eBay sellers must sustain a consistently high volume of monthly sales and a high level of positive feedback from buyers.

Interesting items and strong customer service have led to repeat buyers visiting my website. In fact, the site receives more than 40,000 visits a month.

From August 2003 through August 2004, Texas' online sales totaled approximately \$372,000. This figure represents a revenue gain, an average of 75 percent above the presale estimate compared to a 15 percent gain for a live auction. Online auctions cost the state only 3 percent of the auction proceeds for eBay, compared to the 20 percent of the proceeds for a live auction.

The online auction process has proven so successful in selling unclaimed property that my office has not held a live auction since October 2002.

Accounting System and Budgetary Controls

The Management's Discussion and Analysis (MD&A) in the financial section provides an overview of the state's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the state's major funds: the General Fund, State Highway Fund, Permanent School Fund, Colleges and Universities, Texas Water Development Board Funds, Veterans Land Board Loan Program Funds and the Texas Department of Transportation Turnpike Authority. The fiduciary activities are excluded from the MD&A.

The state's financial statements for governmental funds including general, special revenue, debt service, capital

projects, and permanent funds have been prepared on the modified accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when the related liability is incurred. The government-wide statements (Statement of Net Assets and Statement of Activities), Proprietary (including colleges and universities), Pension and Other Employee Benefit Trust, External Investment Trust, Private-Purpose Trust, and Agency Funds are accounted for on the accrual basis. A summary of the state's significant accounting policies and other necessary disclosures are included in the notes to the financial statements.

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the statewide accounting system after an appropriations bill becomes law. The appropriations bill becomes law after passage by the legislature, certification by my office that the amounts appropriated are within the estimated collections, and the signing of the bill by the Governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in Note 1.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

Risk Management

The state assumes substantially all risks associated with:

- Claims of state employees for unemployment compensation.
- Claims of state employees covered by the state self-insured health care plan, Health Select.

- Claims of covered employees for workers' compensation benefits.
- General tort claims that parties may file against the state or its officials, employees, or appointees.
- Liability claims against the state or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

Independent Audit

The State Auditor has performed an audit in accordance with generally accepted auditing standards of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The State Auditor has contracted with KPMG to perform federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. KPMG's report, Federal Portion of Statewide Single Audit Report, for the year ended August 31, 2004, will be issued separately.

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Texas for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2003. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Texas has received a Certificate of Achievement for the last 14 years (fiscal years ended August 1990 through 2003). I believe our current report continues to conform to the Certificate of Achievement Program requirements, and are submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout the state, including the dedicated management and staff of my Financial Reporting Section; the chief financial officers, chief accountants and their staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will result in Texas being a national leader in quality for financial reporting.

Sincerely,

A handwritten signature in blue ink that reads "Carole Keeton Strayhorn". The signature is fluid and cursive, with "Carole" on the first line, "Keeton" on the second, and "Strayhorn" on the third.

Carole Keeton Strayhorn

Texas Comptroller



State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive

Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Carole Keeton Strayhorn
State Comptroller

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Susan Combs
Commissioner of Agriculture

Victor G. Carrillo
Elizabeth Ames Jones
Michael L. Williams
Railroad Commissioners

Legislative

Lieutenant Governor, David Dewhurst, presides over the Senate

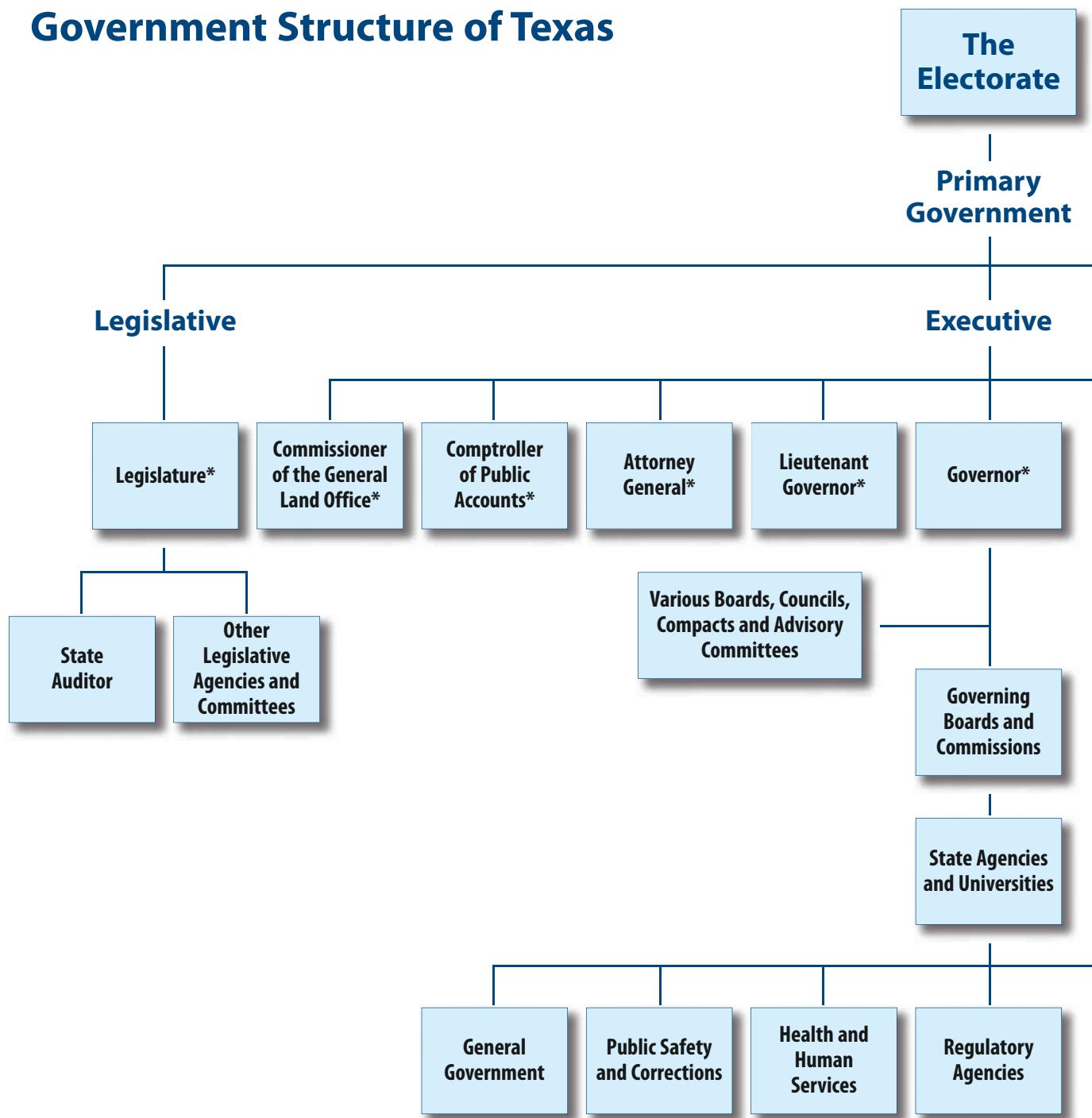
Tom Craddick
Speaker of the House of Representatives

Judicial

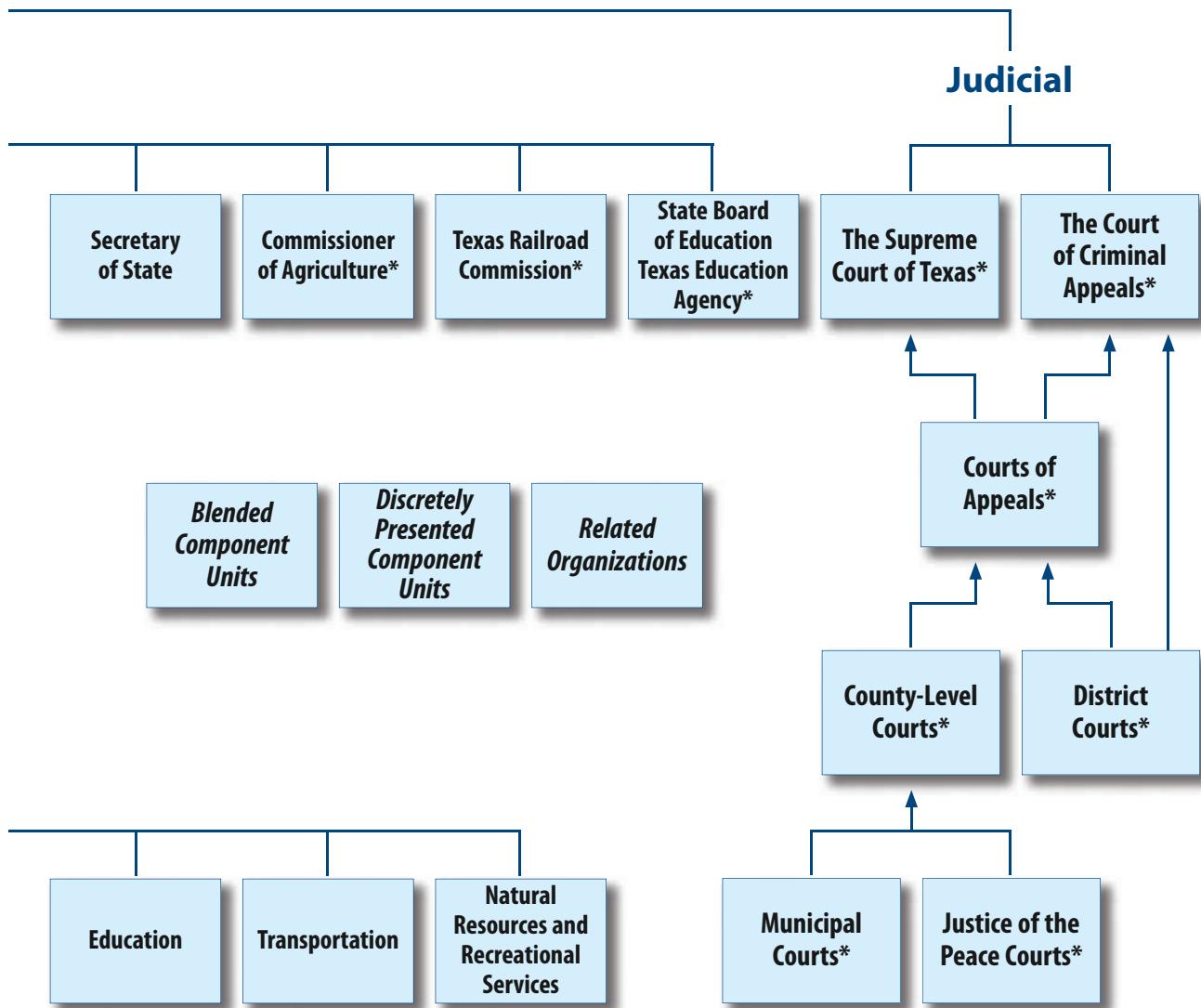
Wallace B. Jefferson
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

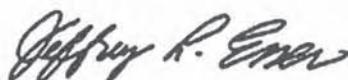
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziebarth

President



Jeffrey P. Ecker

Executive Director

Financial Section

*The Texas State Railroad,
between Rusk and Palestine.*



*A Saturn 5 Rocket on display
at the Johnson Space Center.*



INDEPENDENT AUDITOR'S REPORT

February 21, 2005

The Honorable Rick Perry, Governor
The Honorable Carole Keeton Strayhorn, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Tom Craddick, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2004, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas Investment Management Company (UTIMCO) and the University of Texas M.D. Anderson Cancer Center (UTMDACC), which constitute 50 and 9 percent, respectively, of the assets of Colleges and Universities, a major enterprise fund. UTIMCO and UTMDACC also constitute 35 and 6 percent, respectively, of the assets of the business-type activities.
- The Department of Transportation Turnpike Authority (Authority), a major enterprise fund, which constitutes 5 percent of the assets of the business-type activities.
- The Employees Retirement System of Texas and the Texas Local Governmental Investment Pool (TexPool), which constitute 15 and 7 percent, respectively, of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of the fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of UTIMCO, UTMDACC, the Authority, and TexPool were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by

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Internet: www.sao.state.tx.us

SAO No. 05-317

The Honorable Rick Perry, Governor
The Honorable Carole Keeton Strayhorn, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Tom Craddick, Speaker of the House of Representatives
Members of the Legislature, State of Texas
Page 2

management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

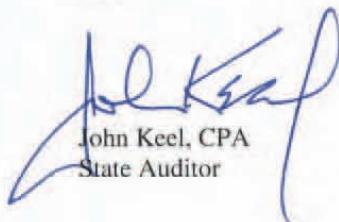
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of August 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule, and the modified approach to reporting infrastructure assets are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures on this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



John Keel, CPA
State Auditor

Management's Discussion and Analysis

*The Figure 3 Ranch
near Amarillo
serving a Cowboy
Morning Breakfast.*



Management's Discussion and Analysis

The following is a discussion and analysis of the State of Texas' financial performance, providing an overview of the state's financial position and activities as of and for the fiscal year ended August 31, 2004. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2004 report.

Highlights Government-wide

Net Assets

The assets of the State of Texas exceeded its liabilities by \$104.1 billion as of August 31, 2004, an increase of \$6.9 billion, or 7 percent, from fiscal year 2003.

Fund Level

Governmental Funds

As of August 31, 2004, the state's governmental funds reported a combined ending fund balance of \$23.3 billion, an increase of \$2.4 billion, or 11 percent, from fiscal year 2003. The state reported a positive unreserved fund balance of \$255 million in fiscal year 2004.

Proprietary Funds

The proprietary funds reported net assets of \$29.9 billion as of August 31, 2004, an increase of \$2.8 billion, or 10 percent, from fiscal year 2003.

Long-Term Debt

The state's total bonds outstanding increased by \$1.6 billion, or 10 percent during fiscal year 2004. This amount represents the net difference between net issuances, payments, and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling \$3.5 billion. More detailed information regarding the government-wide, fund level, and long-term debt activities can be found in the Debt

Administration section of this Management's Discussion and Analysis (MD&A).

Overview of the Financial Statements

The reporting focus of this report is on the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.



The Financial Section of this annual report presents the state's financial activities and position in four parts—(1) MD&A (this part), (2) the Basic Financial Statements, (3) Required Supplementary Information other than MD&A, and (4) Other Supplementary Information presenting combining statements. The report also includes statistical and economic data.

The Basic Financial Statements include Government-wide Financial Statements, Fund Financial Statements, and Notes to Financial Statements that provide more detailed information to supplement the Basic Financial Statements.

Reporting on the State as a Whole

The Government-wide Financial Statements are designed to present an overall picture of the financial position of the state. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The Statement of Net Assets combines and consolidates the government's current financial resources with capital

assets and long-term obligations. This statement includes all of the government's assets and liabilities.

Net assets, which are the difference between the state's assets and liabilities, represent one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The Statement of Activities focuses on both the gross and net cost of various activities (governmental, business-type, and component unit); these costs are paid by the government's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The Statement of Net Assets and the Statement of Activities divide the state's activities into three types.

Governmental Activities

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services. Taxes, fees, and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's colleges and universities are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable, or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These entities are reported in a separate column in the Government-wide Statements. The state includes 16 separate legal entities in the notes to this report.

Reporting on the State's Most Significant Funds

Fund Financial Statements present financial information in a form more familiar to experienced users of governmental financial statements. However, these statements now focus on the most significant funds. Use these statements to find more detailed information about the state's most significant activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activities is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds and amounts remaining at year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information should help determine the level of resources available for the state's programs. The reconciliation following the Fund Financial Statements explains the differences between the government's activities, reported in the Government-wide Statement of Net Assets and the Government-wide Statement of Activities, and the governmental funds. The General Fund, State Highway Fund, and Permanent School Fund are reported as major governmental funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities

reported in the Government-wide Financial Statements but are reported here to provide information at the fund level.

Services provided by one program of the state to another are reported in Internal Service Funds, the other component of proprietary funds. The state's Employee's Life, Accident, and Health Insurance Benefits Fund is reported as the only internal service fund.

Colleges and Universities, Texas Water Development Board Funds, Veterans Land Board Loan Program Funds, and the Texas Department of Transportation Turnpike Authority are shown as major proprietary funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee, or fiduciary, for seven defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The activities are reported separately from other financial activities because the state cannot use the assets to finance state operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Assets

Total assets of the state on August 31, 2004, were \$150.4 billion, an increase of \$17.5 billion. Total liabilities as of August 31, 2004, were \$46.3 billion, an increase of \$10.6 billion or 29.7 percent. Assets were affected by a number of factors. Cash and cash equivalents were up \$9.9 billion over fiscal year 2003, the majority of which is attributable to cash and investments held by the Treasury. Investments and security lending collateral increased \$2.7 billion. A significant portion of the increase in both the assets and the liabilities is the result of the state's sale of \$6.6 billion of Tax and Revenue Anticipation Notes on August 24, 2004. The Net Asset balance was \$104.1 billion in fiscal year 2004, an increase of \$6.9 billion, or 7 percent. Of the state's net assets, \$57.9 billion were invested in capital assets, net of related debt, while \$39.8 billion were restricted by statute or other legal requirements and were not available to finance day-to-day operations of the state. Unrestricted net assets were \$6.3 billion. The state's bonded indebtedness was \$17.4 billion, which included new issuances of \$3.5 billion in state bonds to finance new construction, housing, water conservation, and other projects. Approximately \$2 billion in bonded debt was retired or refunded.

Statement of Net Assets

August 31, 2004 and 2003 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
ASSETS						
Assets Other Than Capital Assets	\$40,461,556	\$30,907,817	\$43,248,765	\$39,110,785	\$ 83,710,321	\$ 70,018,602
Capital Assets	54,373,317	52,374,079	12,317,674	10,489,061	66,690,991	62,863,140
Total Assets	<u>94,834,873</u>	<u>83,281,896</u>	<u>55,566,439</u>	<u>49,599,846</u>	<u>150,401,312</u>	<u>132,881,742</u>
LIABILITIES						
Current Liabilities	16,075,362	8,752,581	7,282,649	5,931,546	\$ 23,358,011	14,684,127
Non-Current Liabilities	4,598,731	4,457,381	18,387,134	16,596,520	22,985,865	21,053,901
Total Liabilities	<u>20,674,093</u>	<u>13,209,962</u>	<u>25,669,783</u>	<u>22,528,066</u>	<u>46,343,876</u>	<u>35,738,028</u>
NET ASSETS						
Invested in Capital Assets,						
Net of Related Debt	51,406,782	49,254,086	6,464,385	5,736,632	\$ 57,871,167	54,990,718
Restricted	22,212,959	20,845,719	17,627,607	15,167,587	39,840,566	36,013,306
Unrestricted	541,039	(27,871)	5,804,664	6,167,561	6,345,703	6,139,690
Total Net Assets	<u>\$74,160,780</u>	<u>\$70,071,934</u>	<u>\$29,896,656</u>	<u>\$27,071,780</u>	<u>\$104,057,436</u>	<u>\$ 97,143,714</u>

Changes in Net Assets

The state earned program revenues of \$50.9 billion and general revenues of \$30.1 billion, for total revenues of \$81 billion, an increase of \$5.4 billion, or 7.2 percent. The major components of this increase are Taxes, which were up by \$1.7 billion, and charges for services, which increased \$1.6 billion. Texas sales tax is the largest single revenue producer for the state. After two years of declining revenue, sales tax collections increased \$1.2 billion in fiscal 2004. Agencies also implemented new fees and fee increases authorized by the 78th Legislature.

The expenses of the state including Extraordinary Items were \$74.2 billion, an increase of \$245.8 million, or 0.33 percent. The expense fluctuations in Governmental Activities are primarily attributable to intergovernmental payments in the education and transportation area. The education program fluctuation was related to the No Child Left Behind Program which was fully implemented in fiscal year 2004. Expenses for the child nutrition program also increased due to a population growth of the students

receiveing free or reduced-price lunches. The transportation function also reported fluctuations from public assistance payments related to the Medical Transportation Program and to contractor payments. The general government function fluctuation is attributable to several factors such as interest expense, child support expenditures, intergovernmental payments, and public assistance payments.

In the business type activities, college and university expenses were increased primarily due to normal staff growth and merit increases. Under Other Business-Type Activities, the Department of Housing and Community Affairs reported an increase in interest and bad debt expense. Interest expense was also significantly up for the Texas Workforce Commission. In addition, the Commission reported a reduction of \$783.8 million in unemployment benefit payments resulting from the improved economy.

As a result of revenues exceeding expenses, the state's total net assets increased by \$6.9 billion. Revenues and expenses of the state's governmental and business-type activities are detailed on the following page.

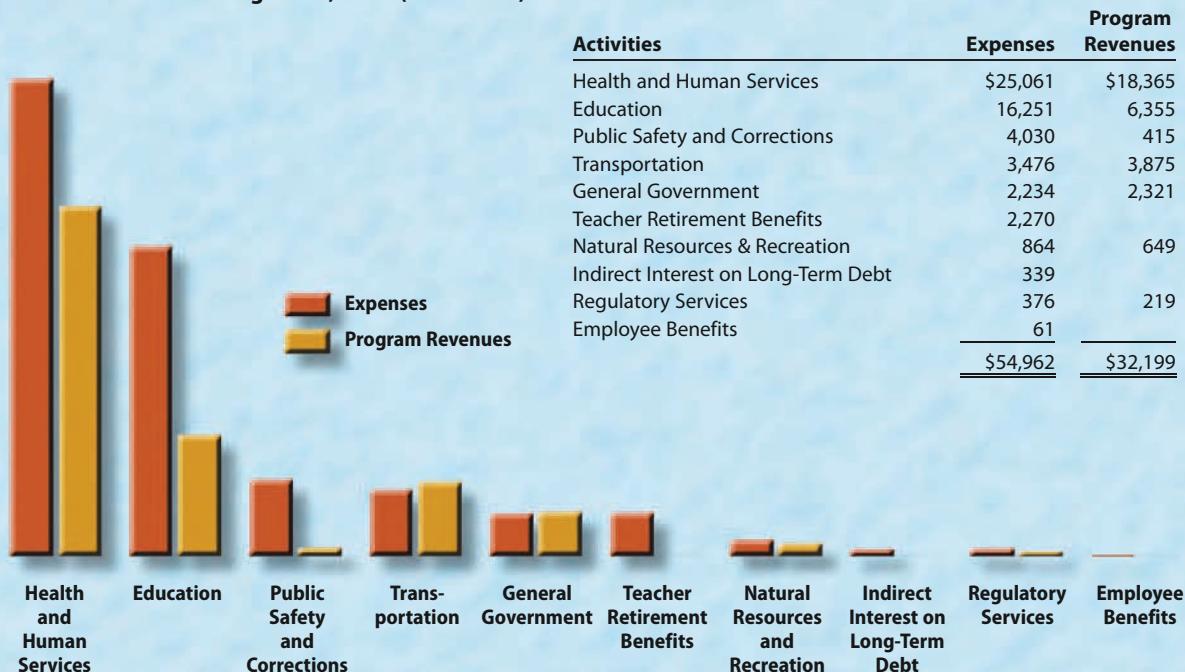
Changes in Net Assets

For the Years Ended August 31, 2004 and 2003 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
REVENUES						
Program Revenues:						
Charges for Services	\$ 4,923,451	\$ 4,340,052	\$12,039,292	\$10,994,237	\$ 16,962,743	\$15,334,289
Operating Grants and Contributions	24,501,850	22,801,211	6,356,243	6,244,537	30,858,093	29,045,748
Capital Grants and Contributions	2,773,764	2,570,634	272,997	162,991	3,046,761	2,733,625
Total Program Revenues	<u>32,199,065</u>	<u>29,711,897</u>	<u>18,668,532</u>	<u>17,401,765</u>	<u>50,867,597</u>	<u>47,113,662</u>
General Revenues:						
Taxes	27,896,485	26,168,037			27,896,485	26,168,037
Unrestricted Investment Earnings	211,239	239,198	193,347	28,020	404,586	267,218
Federal Jobs and Growth Tax Relief Funds	354,535	354,535			354,535	354,535
Settlement of Claims	523,518	563,196	4	5	523,522	563,201
Gain on Sale of Capital Assets	31,189	6,359			31,189	6,359
Other General Revenue	723,157	787,866	194,474	329,238	917,631	1,117,104
Total General Revenues	<u>29,740,123</u>	<u>28,119,191</u>	<u>387,825</u>	<u>357,263</u>	<u>30,127,948</u>	<u>28,476,454</u>
Total Revenues	<u>61,939,188</u>	<u>57,831,088</u>	<u>19,056,357</u>	<u>17,759,028</u>	<u>80,995,545</u>	<u>75,590,116</u>
EXPENSES						
General Government	2,234,369	2,026,241			2,234,369	2,026,241
Education	16,250,938	15,935,961			16,250,938	15,935,961
Employee Benefits	60,536	22,644			60,536	22,644
Teacher Retirement Benefits	2,269,667	2,435,727			2,269,667	2,435,727
Health and Human Services	25,060,588	24,742,714			25,060,588	24,742,714
Public Safety and Corrections	4,030,120	4,207,856			4,030,120	4,207,856
Transportation	3,476,342	3,562,159			3,476,342	3,562,159
Natural Resources and Recreation	864,508	835,139			864,508	835,139
Regulatory Services	375,951	324,567			375,951	324,567
Interest on Long-Term Debt	338,693	366,847			338,693	366,847
Colleges and Universities			13,293,328	12,870,785	13,293,328	12,870,785
Texas Water Development Board Funds			142,083	158,881	142,083	158,881
Veterans Land Board Loan Program Funds			118,942	94,941	118,942	94,941
Texas Department of Transportation						
Turnpike Authority			22,725	57	22,725	57
Other Business-Type Activities			5,631,394	6,339,840	5,631,394	6,339,840
Total Expenses	<u>54,961,712</u>	<u>54,459,855</u>	<u>19,208,472</u>	<u>19,464,504</u>	<u>74,170,184</u>	<u>73,924,359</u>
Excess (Deficiency) before Contributions, Extraordinary Items, and Transfers	<u>6,977,476</u>	<u>3,371,233</u>	<u>(152,115)</u>	<u>(1,705,476)</u>	<u>6,825,361</u>	<u>1,665,757</u>
Capital Contributions	944	600	2,715	1,318	3,659	1,918
Contributions to Permanent and Term Endowments			235,182	235,995	235,182	235,995
Extraordinary Item			(13,401)	36,531	(13,401)	36,531
Transfers	(2,867,137)	(3,069,447)	2,867,137	3,069,447		
Change in Net Assets	<u>4,111,283</u>	<u>302,386</u>	<u>2,939,518</u>	<u>1,637,815</u>	<u>7,050,801</u>	<u>1,940,201</u>
Net Assets, Beginning Balance	70,071,934	69,476,046	27,071,780	25,396,411	97,143,714	94,872,457
Restatements	(22,437)	293,502	(114,642)	37,554	(137,079)	331,056
Net Assets, as Restated	<u>70,049,497</u>	<u>69,769,548</u>	<u>26,957,138</u>	<u>25,433,965</u>	<u>97,006,635</u>	<u>95,203,513</u>
Net Assets, Ending Balance	<u>\$74,160,780</u>	<u>\$70,071,934</u>	<u>\$29,896,656</u>	<u>\$27,071,780</u>	<u>\$104,057,436</u>	<u>\$97,143,714</u>

Expenses and Program Revenues Governmental Activities

For the Fiscal Year Ended August 31, 2004 (In Millions)



Revenue by Source Governmental Activities

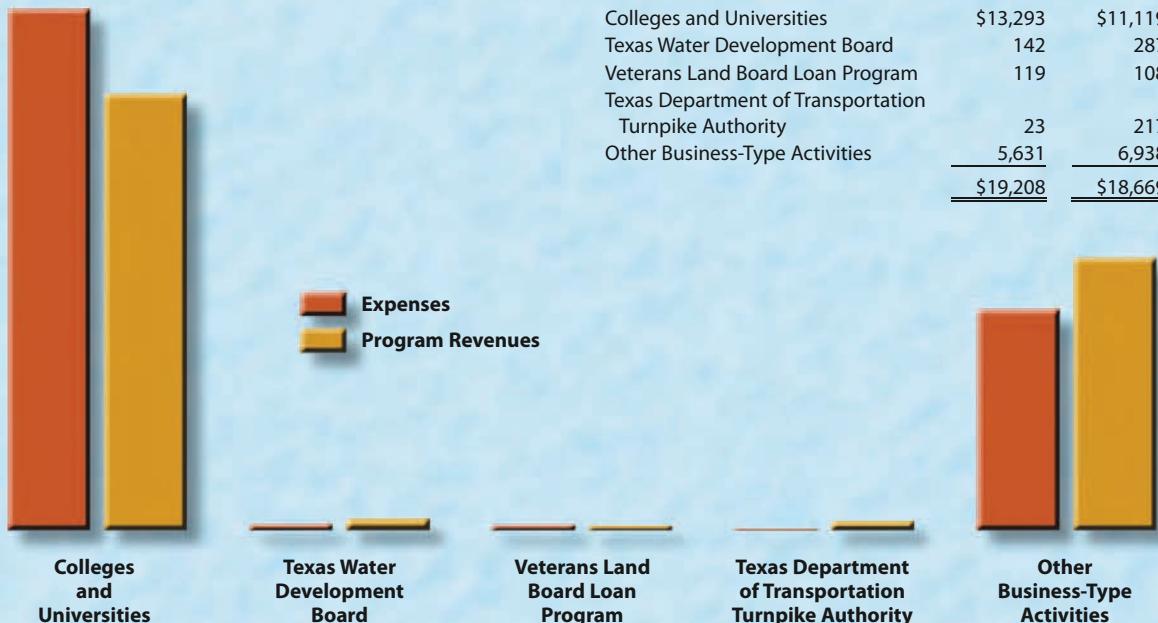
For the Fiscal Year Ended August 31, 2004
(In Billions)*



* Totals may not add due to rounding

Expenses and Program Revenues Business-Type Activities

For the Fiscal Year Ended August 31, 2004 (In Millions)



Revenue by Source Business-Type Activities

For the Fiscal Year Ended August 31, 2004
(In Billions)*



Total = \$19.1 Billion

* Totals may not add due to rounding

Net Cost of the State's Governmental Activities

(Amounts In Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 2,234,369	\$ (87,006)
Education	16,250,938	9,896,119
Employee Benefits	60,536	60,365
Teacher Retirement Benefits	2,269,667	2,269,667
Health and Human Services	25,060,588	6,695,284
Public Safety and Corrections	4,030,120	3,614,882
Transportation	3,476,342	(398,705)
Natural Resources and Recreation	864,508	216,282
Regulatory Services	375,951	157,066
Indirect Interest on Long-Term Debt	338,693	338,693
Total	<u>\$54,961,712</u>	<u>\$22,762,647</u>

Net Cost of the State's Business-Type Activities

(Amounts In Thousands)

	Total Cost of Services	Net Cost (Income) of Services
Colleges and Universities	\$13,293,328	\$ 2,174,650
Texas Water Development Board	142,083	(145,385)
Veterans Land Board Loan Program	118,942	10,773
Texas Department of Transportation		
Turnpike Authority	22,725	(193,804)
Other Business-Type Activities	<u>5,631,394</u>	<u>(1,306,294)</u>
Total	<u>\$19,208,472</u>	<u>\$ 539,940</u>

Governmental Activities

The governmental activities program revenue is \$32.2 billion, including charges for services of \$4.9 billion, operating grants and contributions of \$24.5 billion, and \$2.8 billion reported in capital grants and contributions. As stated above, the largest percentage increase was for charges for services. In addition, operating grants and contributions were up by \$1.7 billion from 2003. Governmental activities expenses were \$55 billion, resulting in a net cost of governmental services of \$22.8 billion, a decrease of \$2 billion, or 8 percent from the prior year.

All functions of governmental activities in the Statement of Activities are in deficit except for the general government and transportation functions that report a surplus. The general government surplus is related to increases of tax and interest revenue. The surplus for transportation is related to the Texas Department of Transportation (TxDOT), which

is receiving a significant number of capital grants from the Federal Highway Administration. Under full accrual, as shown in the transportation function in the Statement of Activities, most of the capital outlay is capitalized versus expensed. Also, TxDOT is using the modified approach for infrastructure and therefore, depreciation expense related to the roadways is not reported on the Statement of Activities.

Business-Type Activities

Business-type activities generated program revenue of \$18.7 billion, including charges for services of \$12 billion, operating grants and contributions of \$6.4 billion, and \$273 million reported in capital grants and contributions. Colleges and universities showed a \$486 million increase in program revenue. Tuition revenue accounted for \$231.6 million of the increase and hospital revenue for \$222 million. The total expenses for business-type activities were \$19.2 billion, resulting in a net cost from the government's business-type activities of \$540 million, a decrease of \$1.5 billion, or 74 percent from the prior year. A large portion of this decrease is attributable to the Texas Workforce Commission's reduction of unemployment benefit payments.

Financial Analysis of the State's Funds

Governmental Funds

As of August 31, 2004, governmental funds reported fund balances of \$23.3 billion. Of this total amount, \$255 million constitutes unreserved fund balances. The general fund reported a negative \$1.6 billion unreserved balance. The State Highway Fund, and the Nonmajor Funds reported unreserved fund balances of \$265 million, and \$1.6 billion, respectively. The Permanent School Fund had no unreserved fund balance.

General Fund

The fund balance for the General Fund as of August 31, 2004 was a negative \$376 million, an improvement of \$908 million from the \$1.3 billion deficit in fiscal year 2003.

Tax collections, which provide the largest source of general revenue for the state, were up 8 percent. The majority of the increase is attributable to sales and use taxes paid by businesses and consumers for goods and services purchased within or brought into the state. Interest and Investment Income also significantly increased. A large portion of the interest is from \$259 million associated with the interest for the Tax and Revenue Anticipation Notes (TRAN), which increased 122 percent.

Transportation expenditures in the general fund decreased 96 percent from fiscal year 2003. This is a direct result of Legislative budget changes for the Texas Department of Transportation (TxDOT). In fiscal year 2004 many of TxDOT's activities previously financed in the general fund were moved to the State Highway Fund.

Permanent School Fund

The fund balance for the Permanent School Fund (Fund) as of August 31, 2004, totaled \$19.9 billion, an increase of \$1.3 billion since August 31, 2003. The favorable stock market increased the fair value of investments from \$18 billion in fiscal year 2003 to \$19.2 billion in fiscal year 2004, an increase of \$1.2 billion. The Fund recognized \$2 billion in interest and investment income (realized and unrealized), up from \$1 billion in fiscal year 2003. This increase resulted from a Constitutional Amendment allowing interest and investment income previously recognized in the Available School Fund to now be recognized in the Permanent School Fund. The amendment also changed the Fund's distribution methodology to a total return based formula rather than the income-based formula. The price increases in oil and gas also raised the land income by \$39 million from \$276 million in fiscal year 2003 to \$315 million in fiscal year 2004.

The Constitutional Amendment mentioned above also affected expenditures of the Permanent School Fund. Before the passage of the amendment, the Available School Fund paid expenditures incurred for the operations of the Permanent School Fund. The Permanent School Fund is now paying these operating expenditures, as well as the fees of the investment managers. This change increased expenditures by \$38 million from fiscal year 2003.

State Highway Fund

The fund balance for the State Highway Fund as of August 31, 2004, was \$654 million, a decrease of \$16 million from \$670 million as of August 31, 2003. Increased contractor payments and capital outlay expenditures contributed to this decrease. Expenditures for capitalized contractor payments increased \$283 million because the Texas Department of Transportation (TxDOT) was able to implement new projects in fiscal year 2004 that had been postponed in fiscal year 2003 due to budget constraints. In addition, interest and investment income was 10 percent less due to a lower average daily cash balance on which interest earnings were computed. The department did, however, receive some areas of increased revenue. For example, federal pass-through revenue was up by \$15.8 million dollars due to the department's assumed responsibility of the Medical Transportation Program during fiscal year 2004.

Proprietary Funds

Proprietary Funds reported net assets of \$29.9 billion as of August 31, 2004, an increase of \$2.8 billion from fiscal year 2003. The Texas Workforce Commission Unemployment Trust Fund Accounts realized a net asset increase of \$167 million. This is primarily due to the Commission seeking alternative methods of replenishing the unemployment compensation fund in order to reduce the costs of providing these benefits and employers' cost of doing business in the state. With the assistance of the Texas Public Finance Authority, the state issued several series of bonds to finance the unemployment insurance program resulting in \$1.4 billion in bond proceeds being deposited to the Texas Unemployment Compensation Trust fund. Of this amount, \$292 million was applied to pay the remaining balance of the federal loan and \$2.5 million was sent to the Federal Unemployment Account at the U.S. Treasury to pay the interest on federal loans made on December 31, 2002.

The Texas Lottery reported an increase of \$20 million in net assets. Mega Millions, which was introduced during fiscal year 2004, had sales of \$189.9 million. The Megaplier feature, which is unique to Texas, generated an additional \$45.6 million of sales. Although instant ticket sales increased by \$196 million over fiscal year 2003, the Texas

Lottery realized a decrease in its other online games. The introduction of Mega Millions is believed to be a contributing factor in the decline. Overall lottery collections were up by \$357 million, and lottery prize payments increased \$400 million. The Texas Lottery Commission was able to transfer an additional \$127.4 million to the State's Foundation School Fund during fiscal year 2004 as compared to fiscal year 2003.

The Texas Prepaid Higher Education Tuition Board reported an increase of net assets of only \$13 million. Revenue for prepaid tuition contracts in fiscal year 2004 decreased by \$335.7 from fiscal year 2003. However, this revenue decrease was offset by an expenditures reduction of \$374.6 million for tuition and fee payments to higher education institutions. Also, colleges and universities utilized the tuition flexibility authorized by the 78th Texas Legislature resulting in an average increase of tuition and required fees for the academic year 2003/2004 of 17 percent over the 2002/2003 academic year. Due to the uncertainty of tuition deregulation, the Board suspended new enrollment in the prepaid tuition plan starting in June 2003, and will annually review the tuition rates at Texas colleges and assess the feasibility of selling future contracts.

Colleges and Universities

Colleges and Universities net assets as of August 31, 2004, totaled \$26.9 billion, an increase of \$2.2 billion from August 31, 2003. Favorable market conditions in fiscal year 2004 attributed to the \$1.9 billion increase of investments on the Statement of Net Assets. Tuition revenue also increased \$231.6 million due to the legislative change that deregulated tuition. This legislation allowed university presidents, in broad consultation with their campuses, to recommend flexible rates of tuition as a means to achieve strategic goals. Plans were adopted that include setting aside at least 20 percent of new tuition revenues for financial aid programs as well as a variety of ways that students can take advantage of special discounts in tuition rates. With the removal of the tuition cap, institutions are now phasing in tuition increases. In addition, universities saw hospital revenue rise to \$1.9 billion as the result of increased charges for medical services. Salaries and wages were up \$334 million from fiscal

year 2003. This is primarily due to normal growth in staffing, merit increases, and promotions. Payroll related cost decreased \$112 million, which reflects the change in benefit eligibility for new employees and for employees working less than full time. The increase in federal revenue was partially attributable to an \$81.2 million receipt of Homeland Security Funds.

Texas Water Development Board Funds

The Texas Water Development Board Funds net assets totaled \$1.6 billion as of August 31, 2004, an increase of \$0.1 billion, from \$1.5 billion as of August 31, 2003. During fiscal year 2004, federal revenue increased 31 percent or \$30.3 million from 2003. This increase was from the EPA Clean Water and Drinking Water Program used for capitalization grants to fund construction loans to political subdivisions for constructing sewage and drinking water treatment facilities. In addition, interest expense was down \$1.9 million primarily due to bond refunding, which replaced higher interest debt with lower interest debt.

Veterans Land Board Loan Program Funds

Net assets for the Veterans Land Board Loan Program Funds totaled \$656 million as of August 31, 2004, with only a \$95 thousand increase from August 31, 2003.

An increase in debt service interest expense combined with losses recognized on high volumes of housing mortgage sales resulted in an operating loss of over \$14.1 million in the housing and land programs. This operating loss, combined with \$21.3 million in transfers to the State of Texas David A. Goliad Texas State Veteran Home Program to construct three new homes, and to the governmental funds for administrative costs, was offset by about \$24.7 million in investment income, resulting in a net decrease in net assets in the housing and land programs of about \$10.7 million.

The State of Texas David A. Goliad Texas State Veteran Home Program operated at a loss of about \$860 thousand, but federal revenues and transfers from the housing and land programs to construct three new homes increased the net assets of the program by about \$11.5 million.

The Veterans Land Board is in the process of constructing three new veterans homes in McAllen, El Paso, and

Amarillo, Texas. Sixty-five percent of the construction of these homes will be funded by a Veterans Administration grant, and the remaining thirty-five percent by contributions from the Veterans Land Board. The agency is also in the process of constructing Texas State Veterans Cemeteries in Killeen and Mission, Texas. The construction of the cemeteries will be fully funded by a Veterans Administration grant.

The Veterans Land Board debt obligations associated with bonds decreased by \$136.4 million. Changes in bonds payable is represented by \$196.7 million of new issuances, \$5 million of accreted interest, and \$338.1 million of retired or matured bonds.

Texas Department of Transportation Turnpike Authority

Net assets for the Texas Department of Transportation Turnpike Authority totaled \$336 million as of August 31, 2004, an increase of \$194 million from August 31, 2003. The largest portion of the Turnpike Authority's total assets (62 percent) consists of investments that were made from bond proceeds and contributions from local entities. These investments are restricted assets that will be used to finance the Turnpike Authority project that was implemented in fiscal year 2002. The Turnpike Authority recognized an increase of \$95 million in capital contributions from local governments as of August 31, 2004. An additional \$39 million in project expenditures was funded from the Texas Department of Transportation's special revenue fund.

Fiduciary Funds

Fiduciary Funds report \$116.9 billion in net assets as of August 31, 2004, an increase of \$7.6 billion from \$109.3 billion in fiscal year 2003.

Pension and Other Employee Benefit Trust Funds

Total net assets for Pension and Other Employee Benefit Trust Funds were \$104.1 billion, an increase of \$8 billion from the \$96.1 billion in fiscal year 2003. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans improved during fiscal year 2004 primarily due

to an increase in net investment income. The return for investments ranged from 11.4 to 11.9 percent.

External Investment Trust Funds

The External Investment Trust Funds reported total net assets of \$10.2 billion in fiscal year 2004, a decrease of \$955 million from the \$11.1 billion in fiscal year 2003. The majority of the decrease is attributable to a decrease of participant investments in the Texas Government Investment Pool (TexPool) Trust Fund.

Private-Purpose Trust Funds

Total net assets for Private-Purpose Trust Funds were \$2.6 billion in fiscal year 2004, an increase of \$532 million from the \$2.1 billion in fiscal year 2003. The Retired School Employees Group Insurance Trust accounted for \$321.3 million of the increase. The increase is a result of higher contribution rates from the state and members, premium increases, supplemental funding from the state, and newly required contributions from reporting entities. The remainder is mainly attributable to the Tobacco Settlement Permanent Trust (Political Subdivisions) that reported an increase of \$165 million.

Budgetary Highlights

Variances for the General Fund

The differences from original and final revenue budgets are due to an overall improved economic picture from the original estimate. The amount of federal funds budgeted in the final column of \$19.6 billion were higher than the original estimate of \$17.9 billion. Projected increases in federal receipts are usually attributed to increased spending in the health and human services areas, as agencies are allowed to expend all federal funds received. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the Federal Medical Assistance Percentage (FMAP) for the last two quarters of federal fiscal year 2003 and the first three quarters of federal fiscal year 2004. The amount received by the State of Texas for this Act was included in the final budget but not in the original budget.

Other differences between the original and final that are attributed to bills passed by the 78th Legislature includes various bills to increase fees collected in fiscal year 2004. For example, passage of a bill relating to increased tax collections, a tax amnesty program, and a limitation on tax refunds, was estimated to increase fiscal year 2004 revenues by \$171 million. In addition, tax revenues increased by \$310 million, with the largest increase being in oil production and regulation taxes.

Also, a transportation bill was estimated to generate over \$200 million in new fees via state traffic fines and driver responsibility program surcharges. In addition, the legislature authorized the state's participation in a multi-state lottery, estimated to generate an additional \$135 million.

Actual revenue was lower than final budgeted revenues by \$1 billion. Taxes, however, were higher than final budget by \$1.5 million, primarily due to sales and use tax and oil and gas production taxes. The 2004 increase in sales tax collections resulted from upturns in several major sectors of the Texas economy such as retail, communications, and wholesale trade. The tax amnesty program "Project: Pay Up" also accounted for a significant portion of the state gain in sales tax. In all, sales and use tax collections were estimated to rise 2.9 percent in fiscal year 2004. Actual collections were up in the state's fiscal year by 7.9 percent, or \$0.7 billion over the final budgeted amount.

Threats of foreign supply disruptions, existing tight supplies, and stronger than expected demands resulted in fiscal year 2004 near record setting taxable prices for crude oil and natural gas. Increase in oil and gas tax collections are a direct result of higher taxable prices.

The tax surplus was offset by federal funds that came in \$1.5 million less than budgeted. A large portion is attributable to budgeted receipts for the health and human services area that were not received at the end of fiscal year 2004. Various factors, such as caseload levels, impact the actual receipt of Medicaid matched funds.

The actual column for other revenue was also less than the final amount by \$910 million. Approximately \$750 million of the discrepancy is primarily due to the budgetary and accounting treatment for the purchase and sale of attendance credits used in support of the Foundation School Program.

Actual expenditures in the general government function were less than budgeted expenditures by \$1.3 billion. This is primarily due to three programs which were budgeted in fiscal year 2004 but where actual expenditures are still pending. Two programs received a biennial appropriation and spending will occur in fiscal year 2005. One program received \$250 million budget for economic, infrastructure, and community development, job training programs, and business incentives. The second program, also for economic development, has remaining budget of \$185.9 million that will be used for grant distribution for the purpose of drawing new businesses to Texas.

In addition, \$231.7 million received from the Job and Growth Tax Relief Reconciliation Act of 2003 was budgeted in general government for allocation to state agencies. At the end of fiscal year 2004, allocation of this money was pending. Once allocated, the funds expended by the agencies will be reflected under the proper agency function.

Capital Assets – Net of Depreciation

August 31, 2004 and 2003 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Land and Land Improvements	\$ 5,729,395	\$ 5,464,344	\$ 831,665	\$ 624,458	\$ 6,561,060	\$ 6,088,802
Infrastructure	42,354,950	40,819,677	244,266	198,221	42,599,216	41,017,898
Construction in Progress	2,661,772	2,337,998	3,099,008	2,350,329	5,760,780	4,688,327
Buildings and Building Improvements	2,702,403	2,855,425	5,215,725	4,515,015	7,918,128	7,370,440
Facilities and Other Improvements	76,786	80,354	443,332	425,895	520,118	506,249
Furniture and Equipment	269,683	267,498	973,197	912,569	1,242,880	1,180,067
Vehicles, Boats and Aircraft	341,423	331,993	49,586	53,236	391,009	385,229
Other Capital Assets	236,905	216,790	1,460,895	1,409,338	1,697,800	1,626,128
Total Capital Assets	<u>\$54,373,317</u>	<u>\$52,374,079</u>	<u>\$12,317,674</u>	<u>\$10,489,061</u>	<u>\$66,690,991</u>	<u>\$62,863,140</u>

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2004, the state had \$66.7 billion in net capital assets, of which \$43 billion was infrastructure. This represents an increase of \$3.8 billion in net capital assets, or 6 percent, from fiscal year 2003. The state's capital assets include land and land improvements, infrastructure, construction in progress, buildings and building improvements, facilities and other improvements, furniture and equipment, vehicles, boats and aircraft, and other capital assets. Details of capital assets are shown in Note 2.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the Government-wide Statements.

The state accounts for its system of roads and highways using the modified approach allowed by GASB Statement No. 34. The Texas Department of Transportation has developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent and its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent. The most recent assessment found that the state's highways were within these parameters, with the

condition of interstate highways at 82.3% and non-interstate highways at a condition of 79.1%. This reflects a condition level improvement of one percent for interstate highways and 0.6 percent for non-interstate.

In fiscal year 2004, the estimated maintenance expenditures for interstate highways were \$400 million, compared to \$384 million actual maintenance expenditures. The estimated versus actual maintenance expenditures for non-interstate highways were \$1.45 billion and \$1.38 billion, respectively. Actual expenditures are 95 percent of estimates.

Additional information on the state's road and highway infrastructure is presented in the Financial Section's Required Supplementary Information other than MD&A.

Debt Administration

The State of Texas issues both General Obligation bonds and Revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues are rated Aa1 by Moody's Investors Service, AA by Standard & Poor's Corporation, and AA+ by Fitch IBCA, as of August 31, 2004. During fiscal year 2004, Texas' state agencies and universities issued \$3.5 billion in state bonds to finance new construction, housing, water conservation and treatment, and other projects. General obligation debt accounted for \$522 million of state bonds issued in fiscal year 2004. This debt, which can only be authorized by a constitutional

Outstanding Bonded Debt

August 31, 2004 and 2003 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds Payable	\$3,115,885	\$3,184,583	\$ 2,719,415	\$ 2,599,197	\$ 5,835,300	\$ 5,783,780
Revenue Bonds Payable	678,584	738,917	10,844,329	9,276,913	11,522,913	10,015,830
Total Bonds Payable	<u>\$3,794,469</u>	<u>\$3,923,500</u>	<u>\$13,563,744</u>	<u>\$11,876,110</u>	<u>\$17,358,213</u>	<u>\$15,799,610</u>

amendment, carries the full faith and credit of the state. The remaining \$3 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of \$204 million in general obligation bonds and \$565 million in revenue bonds. Also, \$266 million in general obligation bonds and \$939 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements, and refundings as of August 31, 2004 was \$5.8 billion. This represents an increase of only \$52 million from fiscal year 2003. An additional \$4 billion of general obligation bonds have been authorized but have not been issued. Total revenue bonds outstanding were \$11.5 billion, which is an increase of \$1.5 billion, or 15 percent, from fiscal year 2003. Note 5 shows the details on the state's long-term liabilities and Note 6 provides detail information on the state's bonds.

Cash Management

Funds deposited in the State Treasury are pooled for investment purposes. The Treasury is authorized to invest in NOW accounts, time deposits, obligations of the United States, obligations of various federal credit organizations, repurchase agreements, reverse repurchase agreements, banker's acceptances, commercial paper, and mutual funds.

During fiscal year 2004, the average investment portfolio consisted of the following:

Average Investment Portfolio *

For the Year Ended August 31, 2004 (Amounts in Millions)

Investment Type	Percent of Total	Average Amount Invested	Average Interest Rate
NOW Accounts	0.1 %	\$ 15	0.131 %
Time Deposits	0.2	22	1.398
BidTX	3.4	419	1.287
Repurchase Agreements	18.7	2,292	1.100
U.S. Treasury & Agency Securities	62.1	7,588	1.624
U.S. Treasury (Lottery)	6.6	801	**
Commercial Paper	14.4	1,754	1.133
Political Subdivisions		4	5.770
Mutual Funds	3.3	406	1.012
Subtotal	<u>108.8</u>	<u>13,301</u>	
Reverse Repurchase Agreements	<u>(8.8)</u>	<u>(1,072)</u>	1.006
Total	<u>100.0 %</u>	<u>\$ 12,229</u>	1.467

* The above numbers include all funds included in the State Treasury.

** The yield for the lottery is not included in the average yield for the state since the investments are long-term and are held for lottery prize winners.

Economic Condition and Outlook

Both Texas and the nation returned to employment growth after more than two years of employment losses. For calendar year 2004, Texas' average annual nonfarm employment grew by 0.8 percent (up 75,300 jobs) over the 2003 nonfarm job count, while the nation added 1,346,000 non-farm jobs, or 1.0 percent. Texas' job change is an improvement over its 2003 performance, when the state experienced a revised loss of 0.5 percent of its jobs. The improving economy also was reflected in a declining unemployment rate, which on the average, fell from 6.8 percent in 2003 to 5.8 percent in 2004. After reaching a low of 4.2 percent in 2000, the rate rose for three consecutive years before 2004's improvement. The nation's average unemployment rate also got better in 2004, falling from 6 percent to 5.5 percent, but the gap between the Texas and U.S. rates narrowed.

Texas' real gross state product advanced by an estimated 4.5 percent in 2004, while personal income increased by an estimated 5.4 percent. The personal income growth rate, expressed in nominal dollars, substantially exceeded the 2.6 percent inflation rate for the year and reflected an advance in real income growth over that of 2003. Real per capita personal income in the state rose 3.7 percent during the year.

The state revenue outlook has improved. The fiscal 2004 ending balance in general revenue-related funds was \$1.4 billion. The 2006-2007 Biennial Revenue Estimate, released in January 2005, indicates revenue available for general purpose spending of \$64.7 billion for the biennium. The state's largest source of tax revenue is the sales tax. Sales tax collections declined in both 2002 and 2003, but were up 7.9 percent during fiscal year 2004. The Comptroller forecasts sales tax growth of 4.1 percent in fiscal year 2005 and 3.6 percent in fiscal year 2006. The Texas economy is expected to be relatively healthy, with real gross state product growth of 3.5 percent in fiscal year 2005 and 3.2 percent in fiscal year 2006.

Contacting the State's Financial Management

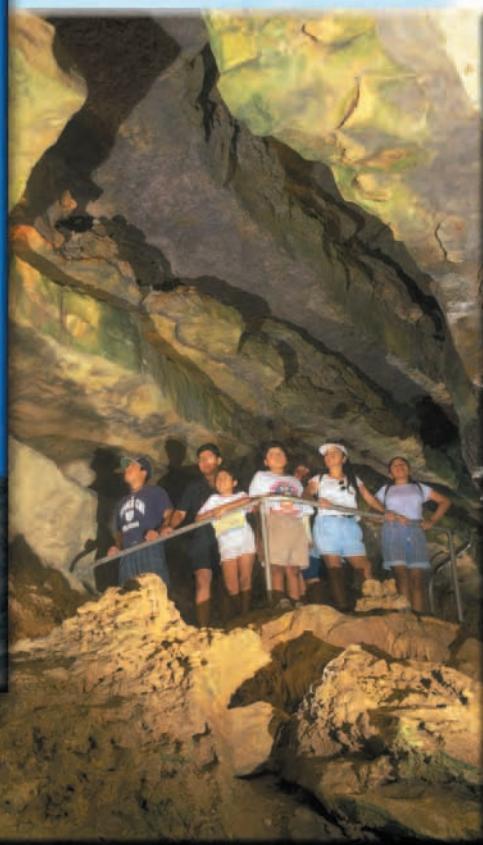
This financial report is designed to provide the state's citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting Section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.

Basic Financial Statements



*Earthquake formed Wonder
World Cave in San Marcos.*

*The University of Texas
McDonald Observatory
near Ft. Davis.*



State of Texas
Statement of Net Assets
August 31, 2004 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 3)	\$ 10,498,012	\$ 3,764,248	\$ 14,262,260	\$ 178,362
Securities Lending Collateral (Note 3)	2,163,969	1,473,321	3,637,290	
Investments (Note 3)	343,353	944,068	1,287,421	64,833
Restricted:				
Cash and Cash Equivalents (Note 3)	370,799	2,359,184	2,729,983	
Investments (Note 3)		654,676	654,676	
Loans and Contracts	80,222	59,081	139,303	78
Receivables:				
Taxes (Note 24)	1,678,849	193,827	1,872,676	
Federal	1,814,445	282,880	2,097,325	27,042
Other Intergovernmental	405,111	37,467	442,578	17,131
Accounts	307,960	586,195	894,155	3,369
Interest and Dividends	114,244	120,498	234,742	6,205
Gifts		91,490	91,490	1,252
Investment Trades	1,802	433,179	434,981	
Other	29,317	678,709	708,026	16,046
From Fiduciary Funds	90,730	2,859	93,589	
Due From Primary Government (Note 12)				1,228
Due From Component Units (Note 12)	25		25	
Inventories	233,894	106,508	340,402	666
Prepaid Items	170	77,932	78,102	1,412
Loans and Contracts	19,562	267,539	287,101	15,285
Other Current Assets	2,241	218,110	220,351	3,395
Total Current Assets	<u>18,154,705</u>	<u>12,351,771</u>	<u>30,506,476</u>	<u>336,304</u>
Non-Current Assets:				
Restricted:				
Cash and Cash Equivalents (Note 3)		556,444	556,444	744
Short Term Investments (Note 3)		749,776	749,776	
Investments (Note 3)	3,100	18,857,388	18,860,488	96,797
Receivables	140	459,158	459,298	99
Loans and Contracts	630,530	2,749,202	3,379,732	3,217
Other	127,818	3,535	131,353	
Internal Balances (Note 12)	13,639	(13,639)		
Loans and Contracts	441,191	2,991,880	3,433,071	45,029
Investments (Note 3)	20,470,254	4,281,681	24,751,935	428,512
Receivables:				
Taxes (Note 24)	395,343		395,343	
Federal	22,046		22,046	
Other	44,100		44,100	
Gifts		101,590	101,590	
Capital Assets: (Note 2)				
Capital Assets - Non-Depreciable	44,142,883	5,354,041	49,496,924	5,921
Capital Assets - Depreciable	21,463,138	15,033,070	36,496,208	115,095
Accumulated Depreciation	(11,232,704)	(8,069,437)	(19,302,141)	(45,045)
Assets Held in Trust		61,626	61,626	
Net Pension Asset (Note 9)	129,315		129,315	
Other Non-Current Assets	29,375	98,353	127,728	7,546
Total Non-Current Assets	<u>76,680,168</u>	<u>43,214,668</u>	<u>119,894,836</u>	<u>657,915</u>
Total Assets	<u>94,834,873</u>	<u>55,566,439</u>	<u>150,401,312</u>	<u>994,219</u>

Concluded on the following page

State of Texas
Statement of Net Assets (concluded)
August 31, 2004 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 3,288,214	\$ 992,834	\$ 4,281,048	\$ 16,128
Payroll	479,606	201,902	681,508	19
Other Intergovernmental	1,146,845	24,250	1,171,095	
Federal	4,490	67,239	71,729	9,565
Investment Trades	4,883	795,803	800,686	
Other	392,193		392,193	590
To Fiduciary Funds	9,035		9,035	
Internal Balances (Note 12)	385,359	(385,359)		
Due To Primary Government (Note 12)				25
Due To Component Units (Note 12)	1,228		1,228	
Deferred Revenue	715,915	1,750,750	2,466,665	15,298
Obligations/Reverse Repurchase Agreement	139,478		139,478	
Obligations/Securities Lending	2,163,970	1,473,321	3,637,291	
Tax and Revenue Anticipation Notes (Note 4)	6,600,000		6,600,000	
Claims and Judgments (Note 5)	82,451	14,747	97,198	
Capital Lease Obligations (Note 5, 7)	4,107	1,981	6,088	218
Employees' Compensable Leave (Note 5)	364,165	56,271	420,436	3,102
Notes and Loans Payable (Note 5)	12,656	808,028	820,684	52,337
General Obligation Bonds Payable (Note 5, 6)	200,180	94,233	294,413	
Revenue Bonds Payable (Note 5, 6)	80,587	450,148	530,735	11,306
Liabilities Payable From Restricted Assets (Note 5)		433,314	433,314	
Funds Held for Others		123,182	123,182	
Other Current Liabilities		380,005	380,005	
Total Current Liabilities	<u>16,075,362</u>	<u>7,282,649</u>	<u>23,358,011</u>	<u>123,206</u>
Non-Current Liabilities:				
Claims and Judgments (Note 5)	160,772	35,459	196,231	
Capital Lease Obligations (Note 5, 7)	43,731	10,146	53,877	216
Employees' Compensable Leave (Note 5)	161,489	403,182	564,671	1,344
Notes and Loans Payable (Note 5)	103,643	1,112,062	1,215,705	166,419
Liabilities Payable From Restricted Assets (Note 5)		3,193,965	3,193,965	210,374
General Obligation Bonds Payable (Note 5, 6)	2,915,705	2,625,182	5,540,887	
Revenue Bonds Payable (Note 5, 6)	597,997	10,394,181	10,992,178	185,693
Assets Held for Others		439,685	439,685	
Net Pension Obligation (Note 9)	615,394		615,394	
Other Non-Current Liabilities		173,272	173,272	21,336
Total Non-Current Liabilities	<u>4,598,731</u>	<u>18,387,134</u>	<u>22,985,865</u>	<u>585,382</u>
Total Liabilities	<u>20,674,093</u>	<u>25,669,783</u>	<u>46,343,876</u>	<u>708,588</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	51,406,782	6,464,385	57,871,167	45,394
Restricted for:				
Education	1,469,915	1,443,591	2,913,506	16,586
Highway Construction	654,560		654,560	
Debt Service	220,304	310,414	530,718	
Capital Projects	96,283	190,364	286,647	
Veterans Land Board Housing Programs		625,609	625,609	
Unemployment Trust Fund		1,220,145	1,220,145	
Funds Held as Permanent Investments:				
Nonexpendable	19,900,935	13,536,117	33,437,052	
Expendable		284,458	284,458	
Other	(129,038)	16,909	(112,129)	40,096
Unrestricted	<u>541,039</u>	<u>5,804,664</u>	<u>6,345,703</u>	<u>183,555</u>
Total Net Assets	<u>\$ 74,160,780</u>	<u>\$ 29,896,656</u>	<u>\$ 104,057,436</u>	<u>\$ 285,631</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas

Statement of Activities

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 2,234,369	\$ 1,695,987	\$ 625,388	\$
Education	16,250,938	520,621	5,834,198	
Employee Benefits	60,536	171		
Teacher Retirement Benefits	2,269,667			
Health and Human Services	25,060,588	838,377	17,526,927	
Public Safety and Corrections	4,030,120	164,959	250,279	
Transportation	3,476,342	1,016,809	85,460	2,772,778
Natural Resources and Recreation	864,508	473,608	173,632	986
Regulatory Services	375,951	212,919	5,966	
Indirect Interest on Long-Term Debt	338,693			
Total Governmental Activities	<u>54,961,712</u>	<u>4,923,451</u>	<u>24,501,850</u>	<u>2,773,764</u>
Business-Type Activities:				
Colleges and Universities	13,293,328	5,821,818	5,201,114	95,746
Texas Water Development Board Funds	142,083	3,911	283,557	
Veterans Land Board Loan Program Funds	118,942	17,423	90,746	
Texas Department of Transportation Turnpike Authority	22,725	39,162	116	177,251
Other Business-Type Activities	5,631,394	6,156,978	780,710	
Total Business-Type Activities	<u>19,208,472</u>	<u>12,039,292</u>	<u>6,356,243</u>	<u>272,997</u>
Total Primary Government	<u>\$74,170,184</u>	<u>\$16,962,743</u>	<u>\$30,858,093</u>	<u>\$ 3,046,761</u>
Component Units				
Component Units	\$ 444,432	\$ 311,683	\$ 149,573	\$ 0
Total Component Units	<u>\$ 444,432</u>	<u>\$ 311,683</u>	<u>\$ 149,573</u>	<u>\$ 0</u>

General Revenues

Taxes:

Sales and Use

Motor Vehicle and Manufactured Housing

Motor Fuels

Franchise

Oil and Natural Gas Production

Insurance Occupation

Cigarette and Tobacco

Other

Unrestricted Investment Earnings

Federal Jobs and Growth Tax Relief Funds

Settlement of Claims

Gain on Sale of Capital Assets

Other General Revenues

Capital Contributions

Contributions to Permanent and Term Endowments

Extraordinary Items (Note 23)

Transfers - Internal Activities (Note 12)

Total General Revenues, Contributions, Extraordinary Items, and Transfers

Change in Net Assets

Net Assets, September 1, 2003

Restatements (Note 14)

Net Assets, September 1, 2003, as Restated

Net Assets, August 31, 2004

The accompanying notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ 87,006	\$ (9,896,119)	\$ 87,006	\$ (9,896,119)
(60,365)	(60,365)		
(2,269,667)	(2,269,667)		
(6,695,284)	(6,695,284)		
(3,614,882)	(3,614,882)		
398,705	398,705		
(216,282)	(216,282)		
(157,066)	(157,066)		
(338,693)	(338,693)		
<u>(22,762,647)</u>	<u>0</u>	<u>(22,762,647)</u>	<u>0</u>
	(2,174,650)	(2,174,650)	
145,385	145,385		
(10,773)	(10,773)		
193,804	193,804		
1,306,294	1,306,294		
<u>0</u>	<u>(539,940)</u>	<u>(539,940)</u>	<u>0</u>
<u>(22,762,647)</u>	<u>(539,940)</u>	<u>(23,302,587)</u>	<u>0</u>
		16,824	
0	0	0	16,824
15,564,085	15,564,085		
2,665,258	2,665,258		
2,931,753	2,931,753		
1,657,141	1,657,141		
1,918,989	1,918,989		
1,192,829	1,192,829		
540,404	540,404		
1,426,026	1,426,026		
211,239	193,347	404,586	(4,030)
354,535		354,535	
523,518	4	523,522	
31,189		31,189	32
723,157	194,474	917,631	61,708
944	2,715	3,659	106
	235,182	235,182	
	(13,401)	(13,401)	
<u>(2,867,137)</u>	<u>2,867,137</u>		
<u>26,873,930</u>	<u>3,479,458</u>	<u>30,353,388</u>	<u>57,816</u>
<u>4,111,283</u>	<u>2,939,518</u>	<u>7,050,801</u>	<u>74,640</u>
<u>70,071,934</u>	<u>27,071,780</u>	<u>97,143,714</u>	<u>215,086</u>
<u>(22,437)</u>	<u>(114,642)</u>	<u>(137,079)</u>	<u>(4,095)</u>
<u>70,049,497</u>	<u>26,957,138</u>	<u>97,006,635</u>	<u>210,991</u>
<u>\$74,160,780</u>	<u>\$29,896,656</u>	<u>\$104,057,436</u>	<u>\$ 285,631</u>

State of Texas

Balance Sheet – Governmental Funds

August 31, 2004 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Current Assets:					
Cash and Cash Equivalents (Note 3)	\$ 8,266,574	\$ 927,620	\$ 525,399	\$ 767,329	\$10,486,922
Securities Lending Collateral (Note 3)			2,044,547	77,819	2,122,366
Investments (Note 3)	139,985		17,041	68,512	225,538
Restricted:					
Cash and Cash Equivalents (Note 3)	1,861			368,938	370,799
Loans and Contracts	235			79,987	80,222
Receivables:					
Taxes (Note 24)	1,678,849				1,678,849
Federal	1,435,479	377,406		1,560	1,814,445
Other Intergovernmental	280,743	124,368			405,111
Accounts	96,372	20,573	96,399	13,778	227,122
Interest and Dividends	1,455	9,108	79,101	24,533	114,197
Investment Trades				1,802	1,802
Other (Note 1)	23,962		4,673	682	29,317
Due From Other Funds (Note 12)	111,539	187,375	38,305	69,687	406,906
Due From Component Units (Note 12)	25				25
Interfund Receivable (Note 12)	152			112	264
Inventories	153,323	70,802		9,769	233,894
Prepaid Items			170		170
Loans and Contracts	3,648	12,838	226	2,850	19,562
Other Current Assets				2,241	2,241
Total Current Assets	<u>12,194,202</u>	<u>1,730,090</u>	<u>2,805,861</u>	<u>1,489,599</u>	<u>18,219,752</u>
Non-Current Assets:					
Investments (Note 3)			19,206,638	976,192	20,182,830
Receivables:					
Taxes (Note 24)	395,343				395,343
Federal		22,046			22,046
Other	44,078			22	44,100
Interfund Receivable (Note 12)	16,102				16,102
Restricted:					
Investments (Note 3)				3,100	3,100
Receivables	139			1	140
Loans and Contracts	97,063			533,467	630,530
Other Assets	199			127,619	127,818
Loans and Contracts	57,931	210,231	4,137	168,892	441,191
Other Non-Current Assets		21,367		8,008	29,375
Total Non-Current Assets	<u>610,855</u>	<u>253,644</u>	<u>19,210,775</u>	<u>1,817,301</u>	<u>21,892,575</u>
Total Assets	<u>\$12,805,057</u>	<u>\$ 1,983,734</u>	<u>\$22,016,636</u>	<u>\$ 3,306,900</u>	<u>\$40,112,327</u>

Concluded on the following page

State of Texas
Balance Sheet – Governmental Funds (concluded)

August 31, 2004 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables:					
Accounts	\$ 2,048,922	\$ 707,684	\$ 23,139	\$ 59,503	\$ 2,839,248
Payroll	387,702	84,455	895	6,554	479,606
Other Intergovernmental	1,146,845				1,146,845
Federal	4,403			87	4,490
Investment Trades				4,883	4,883
Other	182,359	207,047		2,787	392,193
Deferred Revenues	2,002,152	326,949	47,120	881	2,377,102
Due To Other Funds (Note 12)	666,347	3,692		40,158	710,197
Due To Component Units (Note 12)	1,228				1,228
Interfund Payable (Note 12)	133			56	189
Tax and Revenue Anticipation Notes (Note 4)	6,600,000				6,600,000
Claims and Judgments (Note 5)	1,721				1,721
Obligations/Reverse Repurchase Agreements	139,478				139,478
Obligations/ Securities Lending			2,044,547	77,819	2,122,366
Total Current Liabilities	<u>13,181,290</u>	<u>1,329,827</u>	<u>2,115,701</u>	<u>192,728</u>	<u>16,819,546</u>
Non-Current Liabilities:					
Interfund Payable (Note 12)				2,463	2,463
Total Non-Current Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,463</u>	<u>2,463</u>
Total Liabilities	<u>13,181,290</u>	<u>1,329,827</u>	<u>2,115,701</u>	<u>195,191</u>	<u>16,822,009</u>
Fund Balances/(Deficits):					
Reserved (Note 13)	1,185,448	388,884	19,900,935	1,560,484	23,035,751
Unreserved (Note 13):					
General	(1,561,681)				(1,561,681)
Special Revenue		265,023		1,044,333	1,309,356
Capital Projects				15,081	15,081
Permanent				491,811	491,811
Total Fund Balances	<u>(376,233)</u>	<u>653,907</u>	<u>19,900,935</u>	<u>3,111,709</u>	<u>23,290,318</u>
Total Liabilities and Fund Balances	<u>\$12,805,057</u>	<u>\$ 1,983,734</u>	<u>\$22,016,636</u>	<u>\$ 3,306,900</u>	<u>\$40,112,327</u>

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

August 31, 2004 (Amounts in Thousands)

Total Fund Balances – Governmental Funds	\$23,290,318
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets less accumulated depreciation are included in the Statement of Net Assets (Note 2):	
Capital Assets - Non-Depreciable	\$44,142,883
Capital Assets - Depreciable	21,463,138
Accumulated Depreciation	<u>(11,232,704)</u>
	54,373,317
Certain pension funds have been funded in excess of the annual required contributions, creating a year-end asset. The asset is not a current available resource and is not reported in the funds (Note 9).	129,315
Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds.	1,661,978
Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However, these liabilities are included in the Statement of Net Assets (Note 5 and Note 9).	
Claims and Judgments	(241,502)
Capital Lease Obligations	(47,838)
Employees' Compensable Leave	(525,654)
Notes and Loans Payable	(116,299)
General Obligation Bonds Payable	(3,115,885)
Revenue Bonds Payable	(678,584)
Net Pension Obligation	<u>(615,394)</u>
	(5,341,156) *
* Current Portion = \$742,425 and Non-Current Portion = \$4,598,731	
Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets.	(49,152)
The Internal Service Fund is used by management to charge the costs of the Employees Life, Accident, and Health Insurance Benefits Fund to individual funds. Since governmental activities are the predominant activities of the Internal Service Fund, the assets and liabilities of the fund are included in governmental activities in the Statement of Net Assets.	<u>96,160</u>
Net Assets of Governmental Activities	<u>\$74,160,780</u>

State of Texas
Statement of Revenues, Expenditures, and
Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	\$27,944,164	\$ 31,735	\$	\$	\$27,975,899
Federal	21,462,038	2,875,429		44,350	24,381,817
Licenses, Fees, and Permits	2,228,993	876,453		226,546	3,331,992
Interest and Other Investment Income	237,394	20,402	2,014,966	162,738	2,435,500
Land Income	9,964	2,117	314,623	155,189	481,893
Settlement of Claims	517,038	6,106			523,144
Sales of Goods and Services	927,232	174,672		6,802	1,108,706
Other	1,693,642	4,675	15	55,918	1,754,250
Total Revenues	<u>55,020,465</u>	<u>3,991,589</u>	<u>2,329,604</u>	<u>651,543</u>	<u>61,993,201</u>
EXPENDITURES					
Current:					
General Government	1,858,495	10,576	38,422	283,171	2,190,664
Education	14,761,207			1,458,769	16,219,976
Employee Benefits	641			11,737	12,378
Health and Human Services	25,012,270			26,618	25,038,888
Public Safety and Corrections	3,334,780	472,743		79,661	3,887,184
Transportation	1,193	2,955,814		12,660	2,969,667
Natural Resources and Recreation	794,240			49,889	844,129
Regulatory Services	260,933			109,533	370,466
Capital Outlay	105,307	2,647,698	167	77,255	2,830,427
Debt Service:					
Principal	3,964		77	206,978	211,019
Interest	151,495		7	183,845	335,347
Total Expenditures	<u>46,284,525</u>	<u>6,086,831</u>	<u>38,673</u>	<u>2,500,116</u>	<u>54,910,145</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>8,735,940</u>	<u>(2,095,242)</u>	<u>2,290,931</u>	<u>(1,848,573)</u>	<u>7,083,056</u>
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	1,750,606	2,157,927	100	3,075,311	6,983,944
Transfer Out (Note 12)	(9,598,329)	(85,387)	(951,171)	(1,207,287)	(11,842,174)
Bonds and Notes Issued				87,418	87,418
Bonds Issued for Refunding				58,083	58,083
Payments to Escrow for Refunded Bonds				(69,165)	(69,165)
Sale of Capital Assets	43,108	6,459		386	49,953
Increase in Obligations Under Capital Leases	200				200
Total Other Financing Sources (Uses)	<u>(7,804,415)</u>	<u>2,078,999</u>	<u>(951,071)</u>	<u>1,944,746</u>	<u>(4,731,741)</u>
Net Change in Fund Balances	<u>931,525</u>	<u>(16,243)</u>	<u>1,339,860</u>	<u>96,173</u>	<u>2,351,315</u>
Fund Balances, September 1, 2003	(1,283,788)	670,153	18,558,596	2,983,903	20,928,864
Restatements (Note 14)	(23,970)	(3)	2,479	31,633	10,139
Fund Balances, September 1, 2003, as Restated	(1,307,758)	670,150	18,561,075	3,015,536	20,939,003
Fund Balances, August 31, 2004	<u>\$ (376,233)</u>	<u>\$ 653,907</u>	<u>\$19,900,935</u>	<u>\$ 3,111,709</u>	<u>\$23,290,318</u>

The accompany notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

Net Change in Fund Balances	\$2,351,315
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:	
Capital Outlay	\$2,830,427
Depreciation Expense	<u>(772,376)</u>
	2,058,051
The effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net assets.	(18,765)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(98,710)
The Internal Service Fund is used by management to charge the costs of the Employees Life, Accident, and Health Insurance Benefits Fund to individual funds. The adjustments for Internal Service Fund "closes" the fund by allocating these amounts to participating governmental activities.	70,221
The issuance of long-term debt and increase in obligations under capital leases provide current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consumes the current financial resources of governmental funds.	
Bonds and Notes Issued	(145,501)
Increase in Obligations under Capital Leases	(200)
Repayment of Bond and Capital Lease Principal	<u>280,184</u>
	134,483
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.	(376,558)
Resource flows between fiduciary funds, discrete component units and governmental funds are converted to revenues or expenses on the Statement of Activities. Transfers of capital assets have not been reported in the Governmental Funds.	
Capital Asset Transfers	(8,754)
Change in Transfers	1,999,848
Increase in Revenues	1,175
Increase in Expenses	<u>(2,001,023)</u>
	(8,754)
Change in Net Assets of Governmental Activities	<u>\$4,111,283</u>

State of Texas
Statement of Net Assets
Proprietary Funds

August 31, 2004 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds							Governmental Activities – Internal Service Fund*	
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas		Nonmajor Enterprise Funds			
				Department of Transportation	Turnpike Authority				
ASSETS									
Current Assets:									
Cash and Cash Equivalents (Note 3)	\$ 3,047,841	\$ 240,738	\$ 47,136	\$ 475,669	\$ 3,764,248	\$ 11,090			
Securities Lending Collateral (Note 3)	1,230,303			195,882	1,473,321	41,603			
Investments (Note 3)	314,153	629,915				944,068		117,815	
Restricted:									
Cash and Cash Equivalents (Note 3)	751,060		114,868	2	1,493,254	2,359,184			
Short Term Investments (Note 3)	262,921			83,391	308,364	654,676			
Loans and Contracts	6,569		45,378		7,134	59,081			
Receivables:									
Taxes					193,827	193,827			
Federal	275,901	1,016	2,151		3,812	282,880			
Other Intergovernmental	37,467					37,467			
Accounts	347,724		62,816	873	174,782	586,195	80,838		
Interest and Dividends	32,162	37,778	9,317	13,075	28,166	120,498		47	
Gifts	91,490					91,490			
Investment Trades	393,807				39,372	433,179			
Other	678,009				700	678,709			
Due From Other Funds (Note 12)	390,050			2,167	26,207	418,424		374	
Inventories	92,523		94		13,891	106,508			
Prepaid Items	67,037		7		10,888	77,932			
Loans and Contracts	77,472	94,560			95,507	267,539			
Other Current Assets	217,242				868	218,110			
Total Current Assets	8,313,731	1,004,007	281,767	99,508	3,068,323	12,767,336	251,767		
Non-Current Assets:									
Restricted:									
Cash and Cash Equivalents (Note 3)	88,032			462,136	6,276	556,444			
Short Term Investments (Note 3)	10,792			738,984		749,776			
Investments (Note 3)	14,434,324		411,284	452,317	3,559,463	18,857,388			
Receivables	61,112				398,046	459,158			
Loans and Contracts	106,706		1,714,373		928,123	2,749,202			
Other			3,535			3,535			
Loans and Contracts	38,391	2,948,899			4,590	2,991,880			
Investments (Note 3)	4,281,681					4,281,681		287,424	
Gifts	101,590					101,590			
Capital Assets: (Note 2)									
Non-Depreciable	4,327,747		17,553	1,007,720	1,021	5,354,041			
Depreciable	14,972,628		42,250		18,192	15,033,070			
Accumulated Depreciation	(8,050,015)		(6,713)		(12,709)	(8,069,437)			
Assets Held in Trust	56,438				5,188	61,626			
Other Non-Current Assets	27,408	625		54,687	15,633	98,353			
Total Non-Current Assets	30,456,834	2,949,524	2,182,282	2,715,844	4,923,823	43,228,307	287,424		
Total Assets	38,770,565	3,953,531	2,464,049	2,815,352	7,992,146	55,995,643	539,191		

Concluded on the following page

State of Texas
Statement of Net Assets
Proprietary Funds (concluded)

August 31, 2004 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds							Governmental Activities – Internal Service Fund*							
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas		Nonmajor Enterprise Funds									
				Department of Transportation	Turnpike Authority										
LIABILITIES															
Current Liabilities:															
Payables:															
Accounts Payable	\$ 766,413	\$ 89	\$ 6,768	\$ 70,983	\$ 148,581	\$ 992,834	\$ 399,815								
Payroll	198,891				3,011	201,902									
Other Intergovernmental	24,250					24,250									
Federal	67,239					67,239									
Investment Trades	742,698				53,105	795,803									
Due To Other Funds (Note 12)	10,415	1,547	598		17,540	30,100	822								
Interfund Payable (Note 12)					106	106									
Deferred Revenue	1,589,741	31,184	2	97,640	32,183	1,750,750	791								
Obligations/Securities Lending	1,230,303		47,136		195,882	1,473,321	41,603								
Claims and Judgments (Note 5)	14,747					14,747									
Capital Lease Obligations (Note 5, 7)	1,850				131	1,981									
Employees' Compensable Leave (Note 5)	53,589				2,682	56,271									
Notes and Loans Payable (Note 5)	743,251				64,777	808,028									
General Obligation Bonds Payable (Note 5, 6)	15,340	32,645	46,248			94,233									
Revenue Bonds Payable (Note 5, 6)	220,420	37,215			192,513	450,148									
Liabilities Payable From Restricted															
Assets (Note 5)	86,293				347,021	433,314									
Funds Held for Others	123,182					123,182									
Other Current Liabilities	282,519	13,373	14,545	22,177	47,391	380,005									
Total Current Liabilities	<u>6,171,141</u>	<u>116,053</u>	<u>115,297</u>	<u>190,800</u>	<u>1,104,923</u>	<u>7,698,214</u>	<u>443,031</u>								
Non-Current Liabilities:															
Interfund Payable (Note 12)	13,639					13,639									
Claims and Judgments (Note 5)	35,459					35,459									
Capital Lease Obligations (Note 5, 7)	9,478				668	10,146									
Employees' Compensable Leave (Note 5)	402,048				1,134	403,182									
Notes and Loans Payable (Note 5)	166,696			945,366		1,112,062									
Liabilities Payable From Restricted															
Assets (Note 5)	3				3,193,962	3,193,965									
General Obligation Bonds Payable (Note 5, 6)	36,750	920,375	1,668,057			2,625,182									
Revenue Bonds Payable (Note 5, 6)	4,696,907	1,284,930	24,351	1,342,967	3,045,026	10,394,181									
Assets Held for Others	331,233				108,452	439,685									
Other Non-Current Liabilities	36,492				136,780	173,272									
Total Non-Current Liabilities	<u>5,728,705</u>	<u>2,205,305</u>	<u>1,692,408</u>	<u>2,288,333</u>	<u>6,486,022</u>	<u>18,400,773</u>	<u>0</u>								
Total Liabilities	<u>11,899,846</u>	<u>2,321,358</u>	<u>1,807,705</u>	<u>2,479,133</u>	<u>7,590,945</u>	<u>26,098,987</u>	<u>443,031</u>								
NET ASSETS															
Invested in Capital Assets, Net of Related Debt															
Restricted for:															
Education	1,443,591					1,443,591									
Debt Retirement	17,483	18,200			274,731	310,414									
Capital Projects	190,364					190,364									
Veterans Land Board Housing Programs			625,609			625,609									
Unemployment Trust Fund					1,220,145	1,220,145									
Funds Held as Permanent Investments:															
Nonexpendable	13,536,117					13,536,117									
Expendable	284,458					284,458									
Other					16,909	16,909									
Unrestricted	5,306,305	1,613,973			(1,115,614)	5,804,664	96,160								
Total Net Assets	<u>\$26,870,719</u>	<u>\$1,632,173</u>	<u>\$ 656,344</u>	<u>\$ 336,219</u>	<u>\$ 401,201</u>	<u>\$29,896,656</u>	<u>\$ 96,160</u>								

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas			
				Department of Transportation	Turnpike Authority	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES							
Lottery Collections	\$ 634,750		\$	\$	\$ 3,488,334	\$ 3,488,334	\$ 634,750
Tuition Revenue	1,601,914					1,601,914	
Tuition Revenue - Pledged	(395,199)					(395,199)	
Discounts and Allowances							
Hospital Revenue - Pledged	3,812,314					3,812,314	
Discounts and Allowances	(1,917,701)					(1,917,701)	
Professional Fees	2,373,749					2,373,749	
Professional Fees - Pledged	91,799					91,799	
Discounts and Allowances	(1,630,056)					(1,630,056)	
Auxiliary Enterprises	44,576					44,576	
Auxiliary Enterprises - Pledged	594,587				74,855	669,442	
Discounts and Allowances	(24,233)					(24,233)	
Unemployment Taxes					1,783,807	1,783,807	
Other Sales of Goods and Services	99,166				29,423	128,589	
Other Sales of Goods and Services - Pledged	339,108		17,308			356,416	
Discounts and Allowances	(89)					(89)	
Interest and Investment Income	276	58,894	71,517		5,913	136,600	
Interest and Investment Income - Pledged	1,138	95,350				96,488	
Federal Revenue	1,978,346		10,956		357,590	2,346,892	
State Grant Revenue	207,818					207,818	
Premium Revenue					758,255	758,255	1,581,619
Other Operating Grant Revenue	712,192					712,192	
Other Revenues	73,845	3,911	122		239,383	317,261	3,840
Other Revenues - Pledged	118,663					118,663	
Total Operating Revenues	8,716,963	158,155	99,903	0	6,737,560	15,712,581	1,585,459
OPERATING EXPENSES							
Cost of Goods Sold	140,928				53,517	194,445	
Salaries and Wages	6,614,127	4,475			38,300	6,656,902	5,399
Payroll Related Costs	1,505,564	730			9,853	1,516,147	1,316
Professional Fees and Services	376,984	873	27,333		11,045	416,235	626
Travel	172,057	40	14		612	172,723	39
Materials and Supplies	1,099,998	82	925		3,709	1,104,714	339
Communication and Utilities	418,718	38			830	419,586	280
Repairs and Maintenance	226,367	66	8		1,367	227,808	514
Rentals and Leases	151,129	37			8,574	159,740	463
Printing and Reproduction	63,163	26	6		17,105	80,300	31
Depreciation and Amortization	599,943		1,858		2,442	604,243	
Unemployment Benefit Payments					2,177,870	2,177,870	
Bad Debt Expense	3,750					411	4,161
Interest Expense	3,077	131,964	82,291		99,723	317,055	
Scholarships	522,303					522,303	
Lottery Prize Payments					2,245,200	2,245,200	
Employee/Participant Benefit Payments					737,194	737,194	1,519,295
Claims and Judgments	7,773					7,773	
Other Expenses	953,052	1,461	4,701		139,900	1,099,114	309
Total Operating Expenses	12,858,933	139,792	117,136	0	5,547,652	18,663,513	1,528,611
Operating Income (Loss)	(4,141,970)	18,363	(17,233)	0	1,189,908	(2,950,932)	56,848

Concluded on the following page

State of Texas
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund*	
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Funds	Texas		Nonmajor Enterprise Funds		
				Department of Transportation	Turnpike Authority			
NONOPERATING REVENUES (EXPENSES)								
Federal Revenue	\$ 31,358	\$ 129,312	\$ 8,223	\$ 116	\$ 10	\$ 169,019	\$	
Gifts	265,562		51			265,613		
Gifts - Pledged	76,728					76,728		
Land Income	4,899					4,899		
Interest and Investment Income (Loss)	1,798,985	4,996	27,050	(22,704)	278,272	2,086,599	12,892	
Interest and Investment - Pledged	289,919					289,919		
Loan Premium and Fees on Securities Lending					1,900	1,900	334	
Investing Activities Expense	(43,180)				(16)	(43,196)		
Interest Expense	(192,067)		(1,372)	(21)	(26,894)	(220,354)		
Borrower Rebates and Agent Fees	(80)		(434)		(1,604)	(2,118)	(227)	
(Loss) on Sale of Capital Assets	(31,729)				(97)	(31,826)		
Settlement of Claims					4	4	374	
Claims and Judgments	(1,843)	(1)			(12)	(1,856)		
Other Revenues	153,360			2	24	153,386		
Other Expenses	(219,634)	(2,290)			(971)	(222,895)		
Total Nonoperating Revenues (Expenses)	2,132,278	132,017	33,518	(22,607)	250,616	2,525,822	13,373	
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers	(2,009,692)	150,380	16,285	(22,607)	1,440,524	(425,110)	70,221	
CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS AND TRANSFERS								
Capital Contributions - Federal	9,752					9,752		
Capital Contributions - Other	96,452		809	177,451		274,712		
Contributions to Permanent and Term Endowments	235,182					235,182		
Extraordinary Items	(13,401)					(13,401)		
Transfer In (Note 12)	4,335,568	3,131	968	39,097	13,552	4,392,316		
Transfer Out (Note 12)	(450,270)	(9,382)	(17,899)		(1,056,382)	(1,533,933)		
Total Capital Contributions, Endowments, Extraordinary Items and Transfers	4,213,283	(6,251)	(16,122)	216,548	(1,042,830)	3,364,628	0	
Change in Net Assets	2,203,591	144,129	163	193,941	397,694	2,939,518	70,221	
Net Assets, September 1, 2003	24,720,571	1,488,044	656,439	142,278	64,448	27,071,780	25,939	
Restatements (Note 14)	(53,443)		(258)		(60,941)	(114,642)		
Net Assets, September 1, 2003, as Restated	24,667,128	1,488,044	656,181	142,278	3,507	26,957,138	25,939	
Net Assets, August 31, 2004	\$26,870,719	\$1,632,173	\$656,344	\$336,219	\$ 401,201	\$29,896,656	\$ 96,160	

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers	\$ 2,899,169	\$ 32,875	\$ 6,209,753	\$ 9,141,797	\$ 404,282		
Proceeds from Tuition and Fees	2,119,772			2,119,772			
Proceeds from Research Grant and Contracts	3,092,338			377,460	3,469,798		
Proceeds from Gifts	608				608		
Proceeds from Loan Programs	182,643		952,596	206,758	1,341,997		
Proceeds from Auxiliaries	670,143				670,143		
Proceeds from Other Revenues	571,689			236,220	807,909	1,185,405	
Payments to Suppliers for Goods and Services	(3,803,519)	(1,356)	(29,184)	(1,039,272)	(4,873,331)	(3,154)	
Payments to Employees	(8,038,717)	(5,134)		(46,027)	(8,089,878)	(6,106)	
Payments for Loans Provided	(198,684)		(1,057,178)	(265,162)	(1,521,024)		
Payments for Other Expenses	(637,913)	(38)	(20,900)	(4,410,713)	(5,069,564)	(1,509,821)	
Net Cash Provided by Operating Activities	<u>(3,142,471)</u>	<u>(6,528)</u>	<u>(121,791)</u>	<u>0</u>	<u>1,269,017</u>	<u>(2,001,773)</u>	<u>70,606</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Proceeds from Debt Issuance	24,499	114,053	196,700	2,009,502	2,344,754		
Proceeds from State Appropriations	3,462,057	3,130			3,465,187		
Proceeds from Gifts	341,854				341,854		
Proceeds from Endowments	222,976				222,976		
Proceeds from Transfers from Other Funds	140,051	153,481	397,383	7,243,133	7,934,048		
Proceeds from Grant Receipts	32,242	132,494			164,736		
Proceeds of Advances from Other Funds		36,382			36,382		
Proceeds from Other Financing Activities	121,193				155,316	276,509	
Proceeds from Contributed Capital	27,380					27,380	
Payments of Principal on Debt Issuance	(5,298)	(140,735)	(419,090)	(509,842)	(1,074,965)		
Payments of Interest	(62)	(127,690)		(119,700)	(247,452)		
Payments of Other Costs of Debt Issuance	(14)		(981)	(20)	(1,015)		
Payments for Transfers to Other Funds	(126,633)	(158,335)	(400,401)	(8,282,661)	(8,968,030)		
Payments for Grant Disbursements		(2,290)				(2,290)	
Payments for Advances to Other Funds		(46,867)				(46,867)	
Payments for Other Uses	(76,649)	(7,469)			(457,920)	(542,038)	
Net Cash Provided by Noncapital Financing Activities	<u>4,163,596</u>	<u>(43,846)</u>	<u>(226,389)</u>	<u>0</u>	<u>37,808</u>	<u>3,931,169</u>	<u>0</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from Sale of Capital Assets	1,933			8	1,941		
Proceeds from Debt Issuance	1,789,769				1,789,769		
Proceeds from State Grants and Contracts	17,775				17,775		
Proceeds from Gifts	83,479				83,479		
Proceeds from Other Financing Activities	1,205		11,343	118	12,666		
Proceeds from Capital Contributions	1,721			57,110	58,831		
Proceeds of Advances from Other Funds	156,424				156,424		
Payments for Additions to Capital Assets	(1,782,394)		(10,786)	(424,351)	(1,037)	(2,218,568)	
Payments of Principal on Debt Issuance	(1,323,063)			(83,010)		(1,406,073)	
Payments for Capital Leases	(177)					(177)	
Payments of Interest on Debt Issuance	(180,619)				(158)	(180,777)	
Payments on Other Costs of Debt Issuance	(79,598)				(2,389)	(81,987)	
Net Cash Provided by Capital and Related Financing Activities	<u>(1,313,545)</u>	<u>0</u>	<u>557</u>	<u>(450,133)</u>	<u>(3,576)</u>	<u>(1,766,697)</u>	<u>0</u>

Concluded on the following page

State of Texas
Statement of Cash Flows
Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from Sale of Investments	\$ 21,842,345	\$ 166,723	\$ 2,362,589	\$ 10,361,917	\$ 1,417,176	\$ 36,150,750	\$ 818,200
Proceeds from Interest and Investment Income	629,534	153,224	15,089	68,442	123,886	990,175	700
Proceeds from Principal Payments on Loans			245,961			245,961	
Payments for Non-Program Loans Provided			(365,932)			(365,932)	
Payments to Acquire Investments	(21,648,799)	(115,322)	(2,231,178)	(9,739,216)	(1,524,874)	(35,259,389)	(914,800)
Net Cash Provided by Investing Activities	<u>823,080</u>	<u>84,654</u>	<u>146,500</u>	<u>691,143</u>	<u>16,188</u>	<u>1,761,565</u>	<u>(95,900)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>530,660</u>	<u>34,280</u>	<u>(201,123)</u>	<u>241,010</u>	<u>1,319,437</u>	<u>1,924,264</u>	<u>(25,294)</u>
Cash and Cash Equivalents, September 1, 2003	3,359,462	206,458	315,991	221,128	704,568	4,807,607	36,384
Restatements	(3,189)				(48,806)	(51,995)	
Cash and Cash Equivalents, September 1, 2003, as Restated	3,356,273	206,458	315,991	221,128	655,762	4,755,612	36,384
Cash and Cash Equivalents, August 31, 2004	<u>\$ 3,886,933</u>	<u>\$ 240,738</u>	<u>\$ 114,868</u>	<u>\$ 462,138</u>	<u>\$ 1,975,199</u>	<u>\$ 6,679,876</u>	<u>\$ 11,090</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
Operating Income (Loss)	\$ (4,141,970)	\$ 18,363	\$ (17,233)	\$	\$ 1,189,908	\$ (2,950,932)	\$ 56,848
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Amortization and Depreciation	599,943		1,858		2,442	604,243	
Bad Debt Expense	3,750				411	4,161	
Operating Income and Cash Flow Categories							
Classification Differences	209,080	(24,950)	65,214		130,502	379,846	374
Changes in Assets and Liabilities:							
(Increase) Decrease in Receivables	(148,308)		(48,694)		31,356	(165,646)	4,624
(Increase) Decrease in Due From Other Funds	(2,832)				(37)	(2,869)	(374)
(Increase) Decrease in Inventories	(4,355)				458	(3,897)	
(Increase) Decrease in Notes Receivable	(896)					(896)	
(Increase) Decrease in Loans and Contracts	(22,350)		(132,490)		(182,574)	(337,414)	
(Increase) Decrease in Other Assets	(58,691)		8,916		34	(49,741)	
(Increase) Decrease in Prepaid Expenses	(25,070)				1,564	(23,506)	
(Increase) Decrease in State Appropriations	16					16	
Increase (Decrease) in Payables	72,662	(16)	1,150		(68,572)	5,224	9,372
Increase (Decrease) in Deposits	(428)					(428)	
Increase (Decrease) in Due To Other Funds	2,517	75			(48)	2,544	57
Increase (Decrease) in Deferred Revenue	323,485				289	323,774	(295)
Increase (Decrease) in Compensated Absence Liability	62,516				(65)	62,451	
Increase (Decrease) in Benefits Payable					80,738	80,738	
Increase (Decrease) in Other Liabilities	(11,540)		(512)		82,611	70,559	
Total Adjustments	<u>999,499</u>	<u>(24,891)</u>	<u>(104,558)</u>	<u>0</u>	<u>79,109</u>	<u>949,159</u>	<u>13,758</u>
Net Cash Provided by Operating Activities	<u>\$ (3,142,471)</u>	<u>\$ (6,528)</u>	<u>\$ (121,791)</u>	<u>\$ 0</u>	<u>\$ 1,269,017</u>	<u>\$ (2,001,773)</u>	<u>\$ 70,606</u>
NON CASH TRANSACTIONS							
Net Change in Fair Value of Investments	\$ (245,348)	\$ 8	\$ 17,442	\$ 22,704	\$ (101,746)	\$ (306,940)	\$ (2,043)
Donation of Capital Assets	\$ (27,216)					\$ (27,216)	
Borrowing Under Capital Lease Purchase	\$ (616)					\$ (616)	
Other	\$ 19,998					\$ 19,998	

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas

Statement of Fiduciary Net Assets

August 31, 2004 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private- Purpose Trust Funds	Agency Funds	Totals
ASSETS					
Cash and Cash Equivalents (Note 3)	\$ 1,038,353	\$ 1	\$ 717,461	\$ 646,183	\$ 2,401,998
Restricted Cash and Cash Equivalents (Note 3)			278		278
Securities Lending Collateral (Note 3)	14,065,765		145,396		14,211,161
Investments: (Note 3)					
U.S. Government Investments	20,296,197	5,217,935	468,144	248	25,982,524
Corporate Stock	51,961,716		1,286,168	137,349	53,385,233
Corporate Obligations	10,026,849		182,022		10,208,871
Repurchase Agreements	200,000	4,714,428	1,144	977,223	5,892,795
Foreign Securities	16,700,074		20,010		16,720,084
Other Investments	5,993,303	298,031	31,854	14,590	6,337,778
Receivables:					
Federal			183		183
Other Intergovernmental				1,263	1,263
Interest and Dividends	268,545	9,743	5,420	8,837	292,545
Investment Trades	1,184,528		4,677		1,189,205
Accounts	221,644		41,270	79,425	342,339
Other	1,059			43	1,102
Due From Other Funds (Note 12)	5,283		7,836		13,119
Interfund Receivable (Note 12)			26	107	133
Properties, at Cost, net of Accumulated					
Depreciation	38,296		1,152		39,448
Other Assets	494		91,419	1,591,472	1,683,385
Total Assets	<u>122,002,106</u>	<u>10,240,138</u>	<u>3,004,460</u>	<u>3,456,740</u>	<u>138,703,444</u>
LIABILITIES					
Payables:					
Accounts	535,954	14,669	22,393	10,514	583,530
Other Intergovernmental				551,477	551,477
Payroll	1,604		110,000		111,604
Investment Trades	3,207,672		13,927		3,221,599
Deferred Revenue	32,955		70		33,025
Due To Other Funds (Note 12)	88,288		4,106	5,310	97,704
Interfund Payable (Note 12)			102		102
Employees' Compensable Leave	3,772		64		3,836
Obligations/Securities Lending	14,065,765		145,396		14,211,161
Funds Held for Others			91,417	2,889,439	2,980,856
Total Liabilities	<u>17,936,010</u>	<u>14,669</u>	<u>387,475</u>	<u>3,456,740</u>	<u>21,794,894</u>
NET ASSETS					
Held in Trust for:					
Pension Benefits and Other	104,066,096				104,066,096
Employees' Post Employment Healthcare Benefits			238,285		238,285
Individuals, Organizations, and Other Governments			2,378,700		2,378,700
Pool Participants		<u>10,225,469</u>			<u>10,225,469</u>
Total Net Assets	<u>\$ 104,066,096</u>	<u>\$ 10,225,469</u>	<u>\$ 2,616,985</u>	<u>\$ 0</u>	<u>\$ 116,908,550</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private- Purpose Trust Funds	Totals
ADDITIONS				
Contributions:				
Member Contributions	\$ 2,170,398	\$	\$	\$ 2,170,398
State Contributions	287,513			287,513
Transfers In of Contributions (Note 12)	1,242,239		735,941	1,978,180
Other Contributions	194,193			194,193
Total Contributions	<u>3,894,343</u>	<u>0</u>	<u>735,941</u>	<u>4,630,284</u>
Investment Income:				
From Investing Activities:				
Net Appreciation in Fair Value of Investments	8,581,297		160,971	8,742,268
Interest and Investment Income	<u>2,671,654</u>	<u>143,967</u>	<u>55,261</u>	<u>2,870,882</u>
Total Investing Income	<u>11,252,951</u>	<u>143,967</u>	<u>216,232</u>	<u>11,613,150</u>
Less Investing Activities Expense	30,493	6,364	1,867	38,724
Net Income from Investing Activities	<u>11,222,458</u>	<u>137,603</u>	<u>214,365</u>	<u>11,574,426</u>
From Securities Lending Activities:				
Securities Lending Income	177,394			177,394
Less Securities Lending Expense:				
Borrower Rebates	132,726			132,726
Management Fees	7,785			7,785
Net Income from Securities Lending	<u>36,883</u>	<u>0</u>	<u>0</u>	<u>36,883</u>
Total Net Investment Income	<u>11,259,341</u>	<u>137,603</u>	<u>214,365</u>	<u>11,611,309</u>
Capital Share and Individual Account Transactions:				
Net Decrease in Participant Investments				(1,047,261)
Other Additions:				
Federal Revenue			1,539	1,539
Contributions to Employee Benefit Funds			427,307	427,307
Settlement of Claims			33	33
Other Revenue	756		167,646	168,402
Transfer In (Note 12)	<u>66,911</u>		112	67,023
Total Other Additions	<u>67,667</u>	<u>0</u>	<u>596,637</u>	<u>664,304</u>
Total Additions	<u>15,221,351</u>	<u>(909,658)</u>	<u>1,546,943</u>	<u>15,858,636</u>
DEDUCTIONS				
Benefits	6,848,492		609,333	7,457,825
Refunds of Contributions	304,480			304,480
Transfer Out (Note 12)	44,188		1,168	45,356
Intergovernmental Payments			310,756	310,756
Administrative Expenses	41,088		135,686	176,774
Total Deductions	<u>7,238,248</u>	<u>0</u>	<u>1,056,943</u>	<u>8,295,191</u>
INCREASE (DECREASE) IN NET ASSETS	<u>7,983,103</u>	<u>(909,658)</u>	<u>490,000</u>	<u>7,563,445</u>
NET ASSETS				
Net Assets, September 1, 2003	96,082,993	11,180,359	2,084,604	109,347,956
Restatements (Note 14)		(45,232)	42,381	(2,851)
Net Assets, September 1, 2003, as Restated	<u>96,082,993</u>	<u>11,135,127</u>	<u>2,126,985</u>	<u>109,345,105</u>
Net Assets, August 31, 2004	<u>\$ 104,066,096</u>	<u>\$ 10,225,469</u>	<u>\$ 2,616,985</u>	<u>\$ 116,908,550</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas

Index for Notes to Financial Statements

For the Fiscal Year Ended August 31, 2004

	Page
NOTE 1 – Summary of Significant Accounting Policies	63
NOTE 2 – Capital Assets	71
NOTE 3 – Deposits, Investments, and Repurchase Agreements	74
NOTE 4 – Short-Term Debt: Tax and Revenue Anticipation Notes	78
NOTE 5 – Long-Term Liabilities	79
NOTE 6 – Bonded Indebtedness	81
NOTE 7 – Capital Leases	93
NOTE 8 – Operating Leases	94
NOTE 9 – Retirement Systems	94
NOTE 10 – Deferred Compensation	101
NOTE 11 – Postemployment Health Care and Life Insurance Benefits	101
NOTE 12 – Interfund Activity and Transactions	102
NOTE 13 – Governmental Fund Balances – Reserved, Unreserved/Designated and Unreserved/Undesignated	106
NOTE 14 – Adjustments to Fund Balances/Net Assets	107
NOTE 15 – Contingent Liabilities	108
NOTE 16 – Subsequent Events	109
NOTE 17 – Risk Management	110
NOTE 18 – Contested Taxes	111
NOTE 19 – Component Units and Related Organizations	111
NOTE 20 – Deficit Fund Balance/Net Assets	115
NOTE 21 – Tobacco Settlement	115
NOTE 22 – Donor-Restricted Endowments	116
NOTE 23 – Extraordinary Items	116
NOTE 24 – Taxes Receivable	116

Note 1 Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying basic financial statements of the State of Texas have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The state has implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* – an amendment of GASB Statement No. 14 for fiscal year 2004. This statement, as discussed in Note 19, amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government.

The state has also implemented GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues* in fiscal year 2004. Texas is one of the four states not participating in the Master Settlement Agreement (MSA). The state has not created legally separate entities to issue debt. Because annual tobacco settlement payments are based on cigarette sales from the preceding calendar year and the state's fiscal year ends August 31, the estimated tobacco settlement revenue that derives from sales from January 1 to August 31 has been accrued in compliance with the Technical Bulletin.

The Governmental Accounting Standards Board issued GASB Technical Bulletin No. 2003-1 *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*. The state has revised its derivative disclosures in accordance with this Technical Bulletin.

Financial reporting for the state is based on all GASB pronouncements, as well as FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the State of Texas has included all funds, agencies, boards, commissions, authorities, colleges and universities, and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would

cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general administrative services, and employee benefits.

The reporting entity for the state is in accordance with the criteria established by the Governmental Accounting Standards Board. A listing and brief summary of the component units and their relationship to the State of Texas is discussed in Note 19. These financial statements present the State of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.



FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), as well as its discretely presented component units. Certain general government administrative overhead expenses have been allocated as direct expenses to the various functions of the state.

In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis, which incorporates non-current investments, capital assets as well as long-term debt and obligations.

The government-wide statement of activities reflects both the gross and net cost per functional category (public safety, transportation, etc.), which is otherwise supported by general government revenues (sales, use, franchise taxes etc.). In the statement of activities, program revenues are netted within program expenses, which include depreciation, to present the net cost of each program. Program revenues must be directly associated with the function, or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues.

Program revenues include (a) charges for services, (b) operating grants and contributions, and (c) capital grants and contributions. Charges for services include special assessments, and payments made by parties outside of the state’s citizenry if that money is restricted to a particular program.

Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The state’s fiduciary funds are presented in the fund financial statements by type (pension, investment trust, private-purpose, and agency). The assets of the fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are not, therefore, incorporated into the government-wide statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental funds and proprietary funds, assets and liabilities are presented in a classified format, which distinguishes between all current and long-term assets and liabilities. In fiduciary funds, assets and liabilities are presented in order of relative liquidity. Current assets in the governmental funds are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables, and short-term investments. All other assets are considered non-current. Current liabilities in the governmental funds are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements, (b) the source and use of financial resources, and (c) how the state’s actual experience conforms to the budget. Since the governmental fund statements are presented using a different measurement focus and basis of accounting than the government-wide statements’ governmental activities column, a reconciliation is presented which explains the adjustments required to restate the fund-based financial statements for the government-wide governmental activities column.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special Revenue Funds account for specific revenue proceeds, which are legally restricted for specific purposes. Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Capital Projects Funds account for financial resources used for the acquisition, repair, renovation, or construction of major capital facilities other than those financed by proprietary or similar trust funds. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** is the principal operating fund used to account for most of the state's general activities. Included are transactions for general government, education, employee benefits, health and human services, public safety and corrections, transportation, natural resources and recreational services, and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, and monitoring of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the Available School Fund.

Proprietary Fund Types

Proprietary Funds focus on determining operating income, changes in net assets, financial position, and cash

flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are Enterprise Funds and an Internal Service Fund.

Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity;
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges;
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal Service Funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The **Employees Life, Accident, and Health Insurance Benefits Fund**, presented on the proprietary fund statements, is used to account for the services provided by the Group Insurance program to other agencies of the reporting entity.

The state's major Enterprise Funds are listed below.

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University, and Texas State Technical College. They are represented as a single column in the proprietary fund financial statements, and individually in the Combining Statement - Colleges and Universities in the Other Supplementary Information section of this report.

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds, and water pollution control revolving funds, which issue bonds to provide assistance to political subdivisions.

The Veterans Land Board Loan Program Funds receive proceeds from the sale of bonds that are used to administer, originate, and service loans for land, housing, and home improvement for those qualifying veterans.

The Texas Department of Transportation Turnpike Authority receives proceeds from the sale of bonds that are used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase (referred to as the “FY2002 Project”) of the Central Texas Turnpike System.

Fiduciary Fund Types

Fiduciary Funds account for assets held by the state, in either a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private-purpose trust fund is used.

Pension and Other Employee Benefit Trust Funds report resources held in trust for the members and beneficiaries of defined benefit pension plans. Additional information about pension trust funds can be found in Note 9. The state’s deferred compensation plan, established under Internal Revenue Code (IRC) Section 457, Deferred Compensation Plans of State and Local Governmental Employers, is accounted for under the requirements of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* as amended by GASB Statement No. 34. This plan is also reported as a Pension and Other Employee Benefit Trust Fund.

Investment Trust Funds report the external portions of investment pools reported by the sponsoring government.

Private-Purpose Trust Funds report all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

Agency Funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, cash and cash equivalents, investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Component Units

All of the Component Units for the State of Texas are reported as nonmajor Component Units. The Combining Statement of Net Assets and the Combining Statement of Activities are presented for all of the discrete Component Units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units’ separately issued financial statements.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS, AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources, and obligations of the reporting government, both current and non-current, are reported in the government-wide statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33 *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations

of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at year-end and collected within sixty days thereafter. Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the full accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenditures.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures. Proprietary fund types, pension trust funds, investment trust funds, and private-purpose trust funds are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The State Constitution requires the State Comptroller to submit a Biennial Revenue Estimate to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Constitution also requires the State Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The state's budget is prepared on a cash basis. The State Constitution limits appropriation bills to two years. The Legislative Budget Board is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue not dedicated by the Constitution that is available for spending for the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and Legislative Budget Board (LBB) initiate the process by submitting budget requests to the Legislature. At final passage of the Appropriations Bill by the Legislature, it is sent to the State Comptroller for certification. If the State Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the Governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The Governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the Governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The State Comptroller is responsible for controlling, accounting, and reporting expenditures in accordance with the expenditure budgets.

The level of legal control for the budget is established at the Strategy (line item) level by agency. For example, "Highway Patrol", "Driver License & Records", and "Vehicle Inspection" are three of the strategies for the Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 25 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the "Appropriation Summary Report" available by request from the Comptroller's office. This separate docu-

ment includes budget and actual data by appropriation line item (Strategy) for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the Governor may authorize additional appropriations from deficiency and emergency appropriation reserves. Supplemental (Emergency) Appropriations of \$588,500 were approved during fiscal year 2004 to provide sufficient funding for several agencies. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day “lapse” period. Other appropriations referred to as “reappropriated unexpended balances” represent the continuation of a prior year’s balances for completion of a program.

The Budgetary Comparison Schedule, in the Required Supplementary Information Other Than MD&A, presents the original budget, the final budget and the actual activity of the major governmental funds. A reconciliation for the General Fund and the State Highway Fund budgetary basis to the GAAP basis is presented as Required Supplementary Information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as Other Supplementary Information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in local banks, cash in the Treasury, and cash equivalents. Cash in local banks is primarily held by Special Revenue Funds, Enterprise Funds, and Component Units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division - Comptroller’s office. Interest earned is deposited in the General Revenue Fund and specified funds designated by law.

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for Securities Lend-

ing are not included as cash equivalents on the Statement of Cash Flows.

Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale or through consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities. The distribution to the Available School Fund is based on the total return based formula methodology discussed in Management’s Discussion and Analysis. The amount of transfers allocated to the Available School Fund is \$951.1 million. The objective, significant terms and risks of derivative investments at August 31, 2004 can be found in Note 3.

Receivables and Payables

The major receivable for governmental activities and business-type activities are taxes and tuition, respectively. See Note 24 for details on Taxes Receivable. All receivables are shown net of uncollectible amounts. Other Receivables consist primarily of receivables from private sponsored programs.

Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as “Due To/From other funds.” Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as “internal balances.”

Non-Current Interfund Receivables between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Trade Receivables are reported for sales of investments pending settlement. Trade Payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The cost of these items is expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, trust funds, and government-wide financial statements. Capital assets are defined by the state as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Detailed information of capital assets can be found in Note 2.

GASB Statement No. 34 allows an alternative (modified) approach which reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state has elected to use this option for its highway infrastructure. The state has developed and implemented an asset management system that establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum stan-

dards and the current status of the state's system of highways are included in the Required Supplementary Information section of this report.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net assets requires two components: (a) the amount due in one year (current), and (b) the amount due in more than one year (non-current).

General long-term liabilities consist of the non-current portion of capital lease obligations, compensable leave, claims and judgments, and other non-current liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. The state reports rebuttable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include non-current liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime and sick leave) by state and local governmental entities. GASB

Statement No. 34 requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics is accrued as a liability as the benefits are earned by the employee if both the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of 8 to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Overtime, under the federal Fair Labor Standards Act (FLSA) and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at 1.5 hours x overtime hours worked), for non-exempt, non-emergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unpaid overtime must be included in the calculation of current and non-current liabilities for each employee since it may be used like compensatory time or be paid.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is non-transferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of 8 hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement

system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. However, the probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 7 provides the details for capital lease obligations.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years.

Net Assets

Invested in Capital Assets, Net of Related Debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of Invested in Capital Assets, Net of Related Debt. The unspent portion of the debt is included in restricted for capital projects.

The state reports net assets as restricted when constraints placed on net assets are (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.

Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets, Net of Related Debt or Restricted Net Assets.

When both restricted and unrestricted net assets are available for use, it is the state's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fund Balance Reserve and Designated Fund balances for governmental funds are classified to reserved, unreserved/designated or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Note 13 presents the disaggregation of fund balances.

Interfund Activity and Transactions – Government-wide Financial Statement

GASB Statement No. 34 established a classification system with terms and definitions for interfund activity, and modified requirements for reporting transfers.

Interfund Activity

As a general rule the effect of interfund activity has been eliminated from the government-wide statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds has been reclassified and reported as external activity.

Interfund payables and receivables have been eliminated from the statement of net assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net assets. Interfund activities between the primary government and component units with a different year-end are limited and immaterial. Note 12 provides the details of interfund activities and transactions.

Interfund Transactions

Interfund transactions with discretely presented component units have been reclassified and reported as external activity.

Risk Financing

The state maintains a combination of commercial insurance and a self-insurance program. The state is self-insured for workers' compensation and unemployment compensation claims and funds

the liabilities on a pay-as-you-go basis. The state's group insurance program is provided through a combination of insurance contracts, a self-funded health plan, and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. For additional information, see Note 17.

Note 2 Capital Assets

Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB Statement No. 34, depreciation is reported on all "exhaustible" assets. "Inexhaustible assets" such as works of art, historical treasures, and professional, academic and research library books and materials are not depreciated. However, books and materials purchased but not used in a library are considered "exhaustible" assets. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The capitalization threshold and useful lives are as follows.

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	\$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets (Leasehold Improvements and Livestock)	Various	0-22 years

Historical cost records for some land and mineral interests are incomplete or not available. Accordingly, historical costs have been estimated. The effect on the financial statements of any error resulting from assumptions and estimates is not considered material.

Most land improvements (infrastructure) including curbs, sidewalks, fences, bridges, and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach allowed by GASB Statement No. 34.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental

activities in accordance with GASB Statement No. 37. For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The following schedule presents the composition of the state's capital assets, adjustments, reclassifications, additions, and deletions during fiscal year 2004. The reclassifications column shows completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during the current year.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/04	
	Balance 9/1/03	Adjustments*	Reclassifications	Additions	Deletions		
GOVERNMENTAL ACTIVITIES							
Non-Depreciable Assets							
Land and Land Improvements	\$ 5,464,344	\$ 22	\$ (174)	\$ 267,651	\$ (2,448)	\$ 5,729,395	
Infrastructure	34,089,139	64,352	1,401,314			35,554,805	
Construction in Progress	2,337,998	(205,353)	(1,865,728)	2,394,855		2,661,772	
Other Capital Assets	197,704	(2,532)		1,811	(72)	196,911	
Total Non-Depreciable Assets	<u>42,089,185</u>	<u>(143,511)</u>	<u>(464,588)</u>	<u>2,664,317</u>	<u>(2,520)</u>	<u>44,142,883</u>	
Depreciable Assets							
Buildings and Building Improvements	4,880,743	(40,285)	40,751	3,157	(4,051)	4,880,315	
Infrastructure	13,931,404	133,255	420,452		(17,788)	14,467,323	
Facilities and Other Improvements	172,117	(908)	2,766	865	(274)	174,566	
Furniture and Equipment	971,383	237	(9,321)	92,809	(44,771)	1,010,337	
Vehicles, Boats and Aircraft	828,562	533	(332)	69,599	(37,877)	860,485	
Other Capital Assets	23,669	42,648	2,103	1,692		70,112	
Total Depreciable Assets at Historical Cost	<u>20,807,878</u>	<u>135,480</u>	<u>456,419</u>	<u>168,122</u>	<u>(104,761)</u>	<u>21,463,138</u>	
Less Accumulated Depreciation for:							
Buildings and Building Improvements	(2,025,318)	(3,675)		(151,502)	2,583	(2,177,912)	
Infrastructure	(7,200,866)	(6,486)		(475,145)	15,319	(7,667,178)	
Facilities and Other Improvements	(91,763)	219		(6,505)	269	(97,780)	
Furniture and Equipment	(703,885)	5,058	(874)	(79,476)	38,523	(740,654)	
Vehicles, Boats and Aircraft	(496,569)	1,293	289	(55,818)	31,743	(519,062)	
Other Capital Assets	(4,583)	(21,605)		(3,930)		(30,118)	
Total Accumulated Depreciation **	<u>(10,522,984)</u>	<u>(25,196)</u>	<u>(585)</u>	<u>(772,376)</u>	<u>88,437</u>	<u>(11,232,704)</u>	
Depreciable Assets, Net	<u>10,284,894</u>	<u>110,284</u>	<u>455,834</u>	<u>(604,254)</u>	<u>(16,324)</u>	<u>10,230,434</u>	
Governmental Activities Capital Assets, Net	<u>\$52,374,079</u>	<u>\$ (33,227)</u>	<u>\$ (8,754)</u>	<u>\$ 2,060,063</u>	<u>\$ (18,844)</u>	<u>\$ 54,373,317</u>	
* The adjustments column includes assets that were not previously reported, accounting errors, and other changes.							
** Depreciation expense was charged to governmental functions as follows:							
General Government		\$ 46,548					
Education		6,299					
Employee Benefits		1					
Health and Human Services		37,745					
Public Safety and Corrections		141,852					
Transportation		516,972					
Natural Resources and Recreation		20,185					
Regulatory Services		2,774					
Total Governmental Activities Depreciation Expense		<u>\$ 772,376</u>					

Concluded on the following Page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Balance 9/1/03	Adjustments*	Reclassifications	Additions	Deletions	Balance 8/31/04
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable Assets						
Land and Land Improvements	\$ 624,458	\$ (9,731)	\$ 1,347	\$ 217,282	\$ (1,691)	\$ 831,665
Construction in Progress	2,350,329	(62,055)	(914,712)	1,725,550	(104)	3,099,008
Other Capital Assets	1,321,469	294	1,103	105,245	(4,743)	1,423,368
Total Non-Depreciable Assets	<u>4,296,256</u>	<u>(71,492)</u>	<u>(912,262)</u>	<u>2,048,077</u>	<u>(6,538)</u>	<u>5,354,041</u>
Depreciable Assets						
Buildings and Building Improvements	9,620,187	(64,922)	786,215	224,800	(25,123)	10,541,157
Infrastructure	509,540	28,584	35,902	6,569	(4,715)	575,880
Facilities and Other Improvements	776,192	7,373	23,360	12,447	(279)	819,093
Furniture and Equipment	2,631,632	1,343	63,345	269,726	(136,675)	2,829,371
Vehicles, Boats and Aircraft	171,188	(92)	1,883	9,543	(8,723)	173,799
Other Capital Assets	121,389	(37,491)	8,293	1,947	(368)	93,770
Total Depreciable Assets at Historical Cost	<u>13,830,128</u>	<u>(65,205)</u>	<u>918,998</u>	<u>525,032</u>	<u>(175,883)</u>	<u>15,033,070</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(5,105,172)	42,647	1,628	(280,398)	15,863	(5,325,432)
Infrastructure	(311,319)	(8,054)		(16,428)	4,187	(331,614)
Facilities and Other Improvements	(350,297)	1,139		(26,882)	279	(375,761)
Furniture and Equipment	(1,719,063)	5,378	622	(259,658)	116,547	(1,856,174)
Vehicles, Boats and Aircraft	(117,952)	(550)	(232)	(13,719)	8,240	(124,213)
Other Capital Assets	(33,520)	(16,218)		(6,614)	109	(56,243)
Total Accumulated Depreciation***	<u>(7,637,323)</u>	<u>24,342</u>	<u>2,018</u>	<u>(603,699)</u>	<u>145,225</u>	<u>(8,069,437)</u>
Depreciable Assets, Net	<u>6,192,805</u>	<u>(40,863)</u>	<u>921,016</u>	<u>(78,667)</u>	<u>(30,658)</u>	<u>6,963,633</u>
Business-Type Activities Capital Assets, Net	<u>\$ 10,489,061</u>	<u>\$ (112,355)</u>	<u>\$ 8,754</u>	<u>\$ 1,969,410</u>	<u>\$ (37,196)</u>	<u>\$ 12,317,674</u>
COMPONENT UNITS						
Non-Depreciable Assets						
Land and Land Improvements	\$ 3,523	\$	\$	\$ 131	\$	\$ 3,654
Construction in Progress	3,309		(4,240)	3,718	(520)	2,267
Other Capital Assets						
Total Non-Depreciable Assets	<u>6,832</u>	<u>0</u>	<u>(4,240)</u>	<u>3,849</u>	<u>(520)</u>	<u>5,921</u>
Depreciable Assets						
Buildings and Building Improvements	47,520			405	(1)	47,924
Infrastructure						
Facilities and Other Improvements	292					292
Furniture and Equipment	44,472	(490)	3,643	4,803	(13,424)	39,004
Vehicles, Boats and Aircraft	26,592			427	(1,030)	25,989
Other Capital Assets	3,341		597	27	(2,079)	1,886
Total Depreciable Assets at Historical Cost	<u>122,217</u>	<u>(490)</u>	<u>4,240</u>	<u>5,662</u>	<u>(16,534)</u>	<u>115,095</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(8,477)			351	1	(8,125)
Infrastructure						
Facilities and Other Improvements	(164)					(164)
Furniture and Equipment	(27,087)	467		(6,518)	13,241	(19,897)
Vehicles, Boats and Aircraft	(12,587)			(4,066)	443	(16,210)
Other Capital Assets	(1,715)			(967)	2,033	(649)
Total Accumulated Depreciation	<u>(50,030)</u>	<u>467</u>	<u>0</u>	<u>(11,200)</u>	<u>15,718</u>	<u>(45,045)</u>
Depreciable Assets, Net	<u>72,187</u>	<u>(23)</u>	<u>4,240</u>	<u>(5,538)</u>	<u>(816)</u>	<u>70,050</u>
Component Units Capital Assets, Net	<u>\$ 79,019</u>	<u>\$ (23)</u>	<u>\$ 0</u>	<u>\$ (1,689)</u>	<u>\$ (1,336)</u>	<u>\$ 75,971</u>
* The adjustments column includes assets that were not previously reported, accounting errors, and other changes.						
*** Depreciation expense was charged to business-type functions as follows:						
Colleges and Universities		\$ 599,943				
Veterans Land Board		1,858				
Other		1,898				
Total Business-Type Activities Depreciation Expense		<u>\$ 603,699</u>				

Note 3 Deposits, Investments, and Repurchase Agreements

LEGAL AND CONTRACTUAL PROVISIONS

Authority for Investments

All monies in funds established in the Treasury Operations Division - Comptroller's office (Treasury) by the State Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States, obligations of various federal credit organizations, bankers' acceptances, commercial paper and contracts written by the Comptroller which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during, and at the end of the day. The Trust Company met those requirements throughout fiscal year 2004. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds of the state, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions, and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, as well as colleges and universities, are authorized to invest funds not deposited with the Treasury. Of the four largest investing agencies: the Teacher Retirement System (TRS), the Texas Education Agency (TEA) and the Employees Retirement System (ERS) make investments following the "prudent person rule". The University of Texas System (UT) and TRS comply with the "prudent investor rule" when making investments. Authorized investments include equities, fixed income obligations, cash equivalents and alternative investments.

Fair Value Reporting

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for*

Defined Contribution Plans, and GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* require defined benefit pension plans and governmental entities, respectively, to report investments at fair value as of the balance sheet date and to reflect the changes in the fair value of investments as revenue in the operating statements.

The fair value of the state's investments is determined from published market prices and quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings or are valued based on prices from fixed income pricing services or external broker quotes.

Where no readily ascertainable market value exists, (including private equity) fair values can be determined in consultation with investment advisors and Master Trust Custodians, or based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees and reserves.

Investments in money market investments are reported at amortized cost which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less may also be reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

External Investment Pool

The state reports the Texas Government Investment Pool (TexPool) Trust Fund, as an external investment trust fund. A separate report for TexPool can be obtained from the Trust Company.

Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by the pledging, to the Treasury, of securities valued at market excluding accrued interest to the Treasury. Generally, the

list of eligible securities includes all U.S. Treasury Obligations, and most Agency Obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank domiciled in the state, any Federal Reserve Bank or one of its branches, the Texas Treasury Safekeeping Trust Co., any Federal Home Loan Bank or in the vault of the Treasury. During fiscal year 2004, no depository holding state funds failed.

State agencies and institutions of higher education, with deposits of public funds that are not managed by the Treasury, are required to secure deposits through collateral pledged by depository banks and savings and loans. Eligible collateral securities are prescribed by state law. However, retirement systems are exempt by statute from this requirement.

Deposits

At August 31, 2004, the carrying amount of deposits for the state and its component units was \$909 million. This amount consists of all cash in local banks and a por-

tion of short-term investments. This amount is included on the Statement of Net Assets and the Statement of Fiduciary Net Assets as part of the “Cash and Cash Equivalents” and “Securities Lending Collateral” accounts.

Credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the state will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The local bank balances for the state and its component units were \$1.1 billion. This amount is reported using the following categories of credit risk.

Category 1: Fully insured by the FDIC or collateralized with securities held by the state or by the state's agent in the state's name, \$966 million.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the state's name, \$56 million.

Category 3: Either not collateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the state's name, \$104 million.

Cash and Cash Equivalents

August 31, 2004 (Amounts in Thousands)

	Governmental and Business-Type	Fiduciary	Component Units
Current Cash and Cash Equivalents			
Cash on Hand	\$ 20,414	\$ 9,902	\$ 5
Cash in Transit	38,863		
Cash in Local Banks	70,749		
Cash and Investments Held by Treasury	11,630,303	25,004	129,339
Cash Equivalents	<u>2,501,931</u>	1,795,090	19,475
Total Current Cash and Cash Equivalents	<u>14,262,260</u>	<u>572,002</u>	<u>29,543</u>
Current Restricted Cash and Cash Equivalents			
Cash on Hand	714		
Cash in Local Banks	71,022		
Cash and Investments Held by Treasury	566,790	278	
Cash in Federal Treasury	1,038,661		
Cash Equivalents	<u>1,052,796</u>		
Total Current Restricted Cash and Cash Equivalents	<u>2,729,983</u>	<u>278</u>	<u>0</u>
Non-Current Restricted Cash and Cash Equivalents			
Cash in Local Banks	33,805		
Cash and Investments Held by Treasury	3,754		
Cash Equivalents	<u>518,885</u>		
Total Non-Current Restricted Cash and Cash Equivalents	<u>556,444</u>	<u>0</u>	<u>744</u>
Total Cash and Cash Equivalents			
	<u>\$17,548,687</u>	<u>\$ 2,402,276</u>	<u>\$ 179,106</u>

The carrying amount of deposits for component units that are presented discretely in the financial statements was \$129 million and the bank balance was \$130 million. These component units were audited by external auditors. These deposits are included above and consist of \$91 million in Category 1, and \$39 million in Category 3. The component units had no bank deposits in Category 2. The Cash and Cash Equivalents account, including component units, is composed of the amounts as presented on the previous page.

Investments

Credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the state will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The schedule shown on the following page discloses the carrying value and fair value of the investments for the state and its component units by type and category of credit risk. The first section of the schedule discloses the investments held by the Primary Government and Fiduciary Funds. The second section of the schedule discloses the investments held by component units that are presented discretely in the financial statements. The categories of credit risk are as follows:

- A. Insured or registered, or securities held by the state or its agent in the state's name.
- B. Uninsured and unregistered, with securities held by the counterparty trust department or agent in the state's name.
- C. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the state's name.

Certain investments in mutual funds cannot be categorized because they are not evidenced by securities that exist in physical or book-entry form.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities

by the state with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested by the state in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest.

The Treasury's aggregate amount of reverse repurchase agreement obligations at August 31, 2004 was \$139,477,783 including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$139,651,937. The credit exposure at fiscal year end was \$174,154.

Securities Lending

TRS, TEA, ERS, UT, the Trust Company, the Texas A&M University System (A&M), the General Land Office and Veterans Land Board (GLO/VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in a securities lending program as authorized by state statute. Under this program, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities, or bank letters of credit. In addition, TEA may receive collateral in the form of other assets which it specifically agrees to with its lending agent and A&M may receive collateral in the form of fixed income securities and repurchase agreements. TRS, UT, and GLO/VLB receive collateral in excess of 102% of the value of domestic securities lent and 105% for international securities. TEA receives collateral in excess of 100% of the value plus accrued income for Government securities lent, 102% of the value plus accrued income for domestic corporate securities and 105% of the value plus

Investments Held by Primary Government and Fiduciary Funds

August 31, 2004 (Amounts in Thousands)

	Category A	Category B	Category C	Carrying Value*	Fair Value**
U.S. Government Investments	\$ 27,037,762	\$ 39,210	\$ 1,023,275	\$ 28,100,247	\$ 28,100,293
Collateralized Mortgage Obligations	3,058,865	697		3,059,562	3,059,562
Corporate Stock	61,661,534	6,882	19,691	61,688,107	61,688,107
Corporate Obligations	8,447,771		6,309,652	14,757,423	14,757,423
Political Subdivision Bonds	154,763			154,763	154,763
Repurchase Agreements	16,308,022		1,635,181	17,943,203	17,943,192
Foreign Securities	19,687,566		4,779	19,692,345	19,692,345
Commercial Paper	2,947,580		2,272,873	5,220,453	5,220,453
Other Investments	113,028	7,755	2,131,037	2,251,820	2,251,820
Total Categorized Investments	<u>\$139,416,891</u>	<u>\$ 54,544</u>	<u>\$ 13,396,488</u>	<u>152,867,923</u>	<u>152,867,958</u>
Uncategorized Investments:					
Investments Held by Broker-Dealers:					
Under Reverse Repurchase Agreements				139,826	139,826
Under Securities Lending				17,556,117	17,556,117
Securities Lending Collateral Investment Pool				1,696,535	1,696,535
Real Estate and Mortgages				1,274,951	1,418,830
Other Uncategorized Investments				28,044,053	28,044,053
Total Investments Held by Primary Government and Fiduciary Funds				<u>\$201,579,405</u>	<u>\$201,723,319</u>

* The difference in the total carrying amount of investments and that on the combined balance sheet represents the current portion of investments that is included in Cash and Cash Equivalents.

** Pension trust fund investments are reported at fair value, as required by GASB Statement 25.

Other investments are reported at fair value, as required by GASB Statement 31.

Investments Held by Discrete Component Units

August 31, 2004 (Amounts in Thousands)

	Category A	Category B	Category C	Carrying Value*	Fair Value**
U.S. Government Investments	\$ 429,111	\$ 35,232	\$	\$ 464,343	\$ 464,343
Political Subdivision Bonds	24,464			24,464	24,464
Repurchase Agreements	16,433	5,093		21,526	21,526
Other Investments	6,350	226		6,576	6,576
Total Categorized Investments	<u>\$ 476,358</u>	<u>\$ 40,551</u>	<u>\$ 0</u>	<u>516,909</u>	<u>516,909</u>
Uncategorized Investments				103,518	103,518
Total Investments Held by Discrete Component Units				<u>\$ 620,427</u>	<u>\$ 620,427</u>

* The difference in the total carrying amount of investments and that on the combined balance sheet represents the current portion of investments that is included in Cash and Cash Equivalents.

** Investments are reported at fair value, as required by GASB Statement 31.

accrued income for foreign securities. ERS and the Trust Company receive collateral of 100% of the value of securities lent plus accrued interest. A&M receives collateral of 102% of the value of the securities lent. TPHEBT receives collateral of 102% of the value of domestic securities lent plus accrued income and 105% plus accrued income for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The state's securities custodians are the security lending agents. The securities lending contracts do not allow the state to pledge or sell collateral securities unless the borrower defaults. For TRS, TEA, ERS, UT, the Trust Company, GLO/VLB, and TPHEBT, the lending agents are required to indemnify the state if the borrowers fail to return the securities. For A&M, the lending agent is not liable with respect to any losses except to the extent that such losses result from the lending agent's negligence or willful misconduct.

At year end there was no credit risk exposure to the state because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state. The relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements for ERS, A&M, and TPHETB. TRS, the Trust Company and GLO/VLB loans are terminable at will, UT manages its investments to maintain an average maturity and overnight liquidity, and TEA maturities are defined by the lending agreement. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior-period losses during the year.

The state's aggregate amount of securities out on loan to broker-dealers at August 31, 2004 was \$19 billion, of which TRS had \$11.6 billion, TEA had \$2 billion, ERS had \$3.7 billion, UT had \$1 billion, the Trust Company had \$252 million, A&M had \$177 million, GLO/VLB had \$46 million, and TPHETB had \$218 million.

Derivatives

Derivatives are financial instruments (securities or contracts) whose value is linked to, or "derived" from changes in interest rates, currency rates, and stock and commodity prices. Certain state agencies, and colleges and universities were parties to various derivative financial instruments including derivative contracts, options, and investments in commingled funds which are authorized to use derivatives and swaps.

At August 31, 2004, the following derivatives were held and reported at fair value on the Statement of Net Assets and the Statement of Fiduciary Net Assets.

Type	Held By
Forward Contracts	TRS, UT, and A&M
Written Call Options	TRS and UT
Index Funds, Hedge Funds, and Cmingled Funds	UT
Equity-linked notes	TRS
Futures Contracts	UT
Swaps	UT

Forward contracts are bought or sold when an international trade has been made. The contract is in the currency native to the security transactions for settlement date. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform.

During the year, call options were written on equities and on Treasury Bond and equity index futures. If a call option expires, the state realizes a gain to the extent of the premium received. If a call option is exercised, the difference between the proceeds of the sale plus the amount of the premium and the fair value of the security are realized as a gain or loss. If a call option is repurchased, the difference between the premium income received and the amount paid to close the option contract is realized as a gain or loss.

Index funds, hedge funds and commingled funds alter market exposure without trading the underlying cash market securities.

Equity-linked notes are debt instruments whose return on investment is tied to the equity market. The issuers of the notes remit dividends received on the underlying shares. The redemption amount at maturity of the note is the weighted average actual executed price of the underlying shares.

Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes.

Swaps are entered into primarily to hedge and control interest rate risks.

Note 4 Short-Term Debt: Tax and Revenue Anticipation Notes

On August 26, 2003 (with an issue date of September 2, 2003), \$7.4 billion in the State of Texas Tax and Revenue Anticipation Notes, Series 2003, were sold to coordinate the cash flow of the state for the fiscal year ended August 31, 2004. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the General Revenue Fund. The Series 2003 were repaid during fiscal year 2004 and bore interest at 2.00% and were priced to yield 1.158%.

On August 24, 2004, the Comptroller's office sold approximately \$6.6 billion of the State of Texas Tax and Revenue Anticipation Notes, Series 2004 dated August 31, 2004, with a maturity date of August 31, 2005. The notes

bear interest at 3.0% and were priced to yield 1.614%. They are not subject to redemption prior to maturity. Short-term debt activity for the year ended August 31, 2004, is as follows.

Tax and Revenue Anticipation Notes

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Beginning Balance 9/1/03	Issued	Redeemed	Ending Balance 8/31/04
Tax and Revenue Anticipation Notes	\$ 0	\$ 14,037,725	\$ 7,437,725	\$ 6,600,000

Note 5 Long-Term Liabilities

The long-term liabilities activity for the fiscal year ended August 31, 2004 is shown in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Beginning Balance 9/1/03 *	Additions	Reductions	Ending Balance 8/31/04	Amounts Due within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES						
Claims and Judgments	\$ 210,691	\$ 87,891	\$ 57,080	\$ 241,502	\$ 80,730***	\$ 160,772
Capital Lease Obligations	51,704	200	4,066	47,838	4,107	43,731
Employees' Compensable Leave	492,823	551,328	518,497	525,654	364,165	161,489
Notes and Loans Payable	103,199	49,400	36,300	116,299	12,656	103,643
General Obligation Bonds Payable	3,184,583	88,812	157,510	3,115,885	200,180	2,915,705
Revenue Bonds Payable	738,917	21,975	82,308	678,584	80,587	597,997
Governmental Activities Long-Term Liabilities	<u>\$ 4,781,917</u>	<u>\$ 799,606</u>	<u>\$ 855,761</u>	<u>\$ 4,725,762</u>	<u>\$ 742,425</u>	<u>\$ 3,983,337</u>
BUSINESS-TYPE ACTIVITIES						
Claims and Judgments	\$ 64,771	\$ 90,519	\$ 105,084	\$ 50,206	\$ 14,747	\$ 35,459
Capital Lease Obligations	23,362	7,179	18,414	12,127	1,981	10,146
Employees' Compensable Leave	395,993	116,463	53,003	459,453	56,271	403,182
Notes and Loans Payable	1,888,925	992,074	960,909	1,920,090	808,028	1,112,062
Liabilities Payable from Restricted Assets	3,529,530	167,236	69,487	3,627,279	433,314	3,193,965
General Obligation Bonds Payable	2,599,197	433,087	312,869	2,719,415	94,233	2,625,182
Revenue Bonds Payable	9,276,913	2,989,039	1,421,623	10,844,329	450,148	10,394,181
Assets Held for Others**	107,290		107,290			
Other Long-Term Liabilities**	96,437		96,437			
Business-Type Activities Long-Term Liabilities	<u>\$ 17,982,418</u>	<u>\$ 4,795,597</u>	<u>\$ 3,145,116</u>	<u>\$ 19,632,899</u>	<u>\$ 1,858,722</u>	<u>\$ 17,774,177</u>
COMPONENT UNITS						
Capital Lease Obligations	\$ 348	\$ 364	\$ 278	\$ 434	\$ 218	\$ 216
Employees' Compensable Leave	4,054	2,142	1,750	4,446	3,102	1,344
Notes and Loans Payable	255,393	295,769	332,406	218,756	52,337	166,419
Liabilities Payable from Restricted Assets	154,171	56,203		210,374		210,374
Revenue Bonds Payable	173,018	53,684	29,703	196,999	11,306	185,693
Other Long-Term Liabilities**	64,435		64,435			
Component Units Long-Term Liabilities	<u>\$ 651,419</u>	<u>\$ 408,162</u>	<u>\$ 428,572</u>	<u>\$ 631,009</u>	<u>\$ 66,963</u>	<u>\$ 564,046</u>

* Net Pension Obligation was removed from this note and is reported in the separate pension note, Note 9, as required by GASB Statement No. 27.

** Note disclosure is not required for Assets Held for Others and Other Long-Term Liabilities.

*** This amount does not tie to the Statement of Net Assets by \$1,721 which is not considered to be a portion of long-term liabilities since it was reported on the fund financial statements.

Notes and Loans Payable consists of amounts used to purchase mainframe computer equipment, software development, and construction of adult and youth corrections and mental health and mental retardation facilities. Debt service requirements for Notes and Loans Payable in the long-term liabilities are shown below.

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2005	\$ 12,656	\$ 5,174	\$ 17,830
2006	15,144	4,510	19,654
2007	11,355	3,870	15,225
2008	7,982	3,389	11,371
2009	5,917	3,029	8,946
2010 - 2014	25,993	11,359	37,352
2015 - 2019	21,083	5,545	26,628
2020 - 2024	16,169	1,106	17,275
Total Requirements	<u>\$ 116,299</u>	<u>\$ 37,982</u>	<u>\$ 154,281</u>

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2005	\$ 52,337	\$ 9,312	\$ 61,649
2006	26,254	7,675	33,929
2007	23,794	6,367	30,161
2008	28,370	5,170	33,540
2009	19,803	3,767	23,570
2010 - 2014	68,198	9,312	77,510
Total Requirements	<u>\$218,756</u>	<u>\$41,603</u>	<u>\$260,359</u>

General Obligation Bonds and Revenue Bonds are described in detail in Note 6.

Claims and Judgments are payments on behalf of the state, its agencies, and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$25,000 or numerous separate claims from the same individual or entity that in total exceed \$25,000 must be approved by the State Legislature before being paid.

Employees' Compensable Leave is the state's liability for all unused vacation and unpaid over-time accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination.

Capital Lease Obligations are described in detail in Note 7.

Liabilities that are associated with the acquisition of restricted assets or liabilities that will be liquidated with restricted assets are classified as Liabilities Payable from Restricted Assets.

Note 6 Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The State of Texas has 430 bond issues outstanding as of August 31, 2004. During fiscal year 2004, the state paid \$331.8 million from general revenue for debt service.

General Obligation Bonds - General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of bond are summarized below.

The Texas Higher Education Coordinating Board issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The Texas Parks and Wildlife Department issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The Texas Public Finance Authority (Authority) issues general obligation bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The bonds are payable from state appropriations. The Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities.

The Texas Water Development Board issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects, and flood control projects. Debt service payments are funded by principal and interest received on bonds bought from the political subdivisions, repayments of purchased water storage contracts, and earnings on temporary investments.

The **General Land Office/Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing, or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

Constitutional Appropriation Bonds are issued in support of the construction programs of colleges and universities not benefiting from the Permanent University Fund, which is dedicated to the University of Texas and Texas A&M University Systems. Debt service payments on bonds issued are limited to the \$87.5 million in general revenue available for debt service each year.

The **Economic Development and Tourism Office** within **The Office of the Governor**, as the successor Office to the **Texas Department of Economic Development** has authority to issue general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, and to provide loans to finance the commercialization of new and improved products and processes.

The **Texas Agricultural Finance Authority**, a public authority created within the Department of Agriculture, has the authority to issue bonds to provide financial assistance for the expansion, development, and diversification of agricultural businesses.

General Obligation Bonds Authorized But Unissued

(Amounts in Thousands)

SELF-SUPPORTING

Texas Agricultural Finance Authority Bonds	\$ 25,000
Texas Department of Economic Development Bonds	45,000
Farm and Ranch Loan Bonds	20,000
Veterans Land and Housing Bonds	505,002
Water Development Bonds	2,170,906
College Student Loan Bonds	250,000
Texas Military Preparedness Commission	250,000
Agricultural Water Conservation Bonds	164,840
	<hr/>
	3,430,748

NOT SELF-SUPPORTING

Texas Public Finance Authority Bonds	774,077
Water Development Bonds - State Participation Bonds	15,000
Water Development Bonds - Economically Distressed Areas Program	37,011
	<hr/>
	826,088
Total General Obligation Bonds	<hr/>
	\$ 4,256,836

General Obligation Bonds - Authorized But Unissued

The Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of August 31, 2004, the amounts of general obligation bonds other than Constitutional Appropriation Bonds that were authorized but unissued are listed in the table on the previous page.

Revenue Bonds - General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations:

- Texas Military Facilities Commission Bonds;
- Texas Public Finance Authority Bonds;
- Texas Department of Criminal Justice Bonds; and
- Texas Parks and Wildlife Department Bonds.

The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

The **Texas Military Facilities Commission** issues bonds for the construction, expansion, and renovation of armories. The bonds are payable from certain pledged

revenues, primarily rentals from the Adjutant General's Department.

The **Texas Workforce Commission** was authorized to issue, in an amount not to exceed \$2 billion for any separate bond issue, revenue bonds to (a) repay advances from the federal unemployment insurance program (b) pay unemployment benefits by depositing the proceeds in the unemployment compensation fund (c) pay costs of issuance, and (d) pay capitalized interest on bonds.

The **Texas Public Finance Authority** issues bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Public Finance Authority** issued bonds to establish the Texas Workers' Compensation Insurance Fund that would operate as an insurance carrier. Due to changes in organizational structure, the fund is now a related organization and their name has changed to the Texas Mutual Insurance Company. Debt service is paid from securities on deposit in the Escrow Fund. The Escrow Fund was established to provide for the full and complete discharge of the Fund's obligation to continue collecting a maintenance tax surcharge on gross premiums of insurers providing workers compensation insurance in the state. The Authority has also issued bonds on behalf of other state agencies and universities.

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Bonds Outstanding 9/1/03	Bonds Issued	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/04	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	\$ 3,184,583	\$ 88,812	\$ 100,670	\$ 56,840	\$ 3,115,885	\$ 200,180
Revenue Bonds	738,917	21,975	73,928	8,380	678,584	80,587
Governmental Activities Bond Total	<u>3,923,500</u>	<u>110,787</u>	<u>174,598</u>	<u>65,220</u>	<u>3,794,469</u>	<u>280,767</u>
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,599,197	433,087	103,404	209,465	2,719,415	94,233
Revenue Bonds	9,276,913	2,989,039	491,154	930,469	10,844,329	450,148
Business-Type Activities Bond Total	<u>11,876,110</u>	<u>3,422,126</u>	<u>594,558</u>	<u>1,139,934</u>	<u>13,563,744</u>	<u>544,381</u>
COMPONENT UNITS						
Revenue Bonds	173,018	53,684	12,900	16,803	196,999	11,306
Total Bonds	<u>\$ 15,972,628</u>	<u>\$ 3,586,597</u>	<u>\$ 782,056</u>	<u>\$ 1,221,957</u>	<u>\$ 17,555,212</u>	<u>\$ 836,454</u>

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 200,180	\$ 144,828	\$ 345,008	\$ 80,587	\$ 29,800	\$ 110,387
2006	258,075	134,891	392,966	84,471	25,532	110,003
2007	262,050	123,250	385,300	80,437	21,169	101,606
2008	276,965	109,673	386,638	55,795	17,991	73,786
2009	333,860	94,816	428,676	56,775	15,909	72,684
2010 - 2014	1,111,030	287,225	1,398,255	252,021	51,037	303,058
2015 - 2019	432,160	119,175	551,335	102,440	14,354	116,794
2020 - 2024	143,295	56,843	200,138	9,500	1,011	10,511
2025 - 2029	51,960	31,162	83,122	245	22	267
2030 - 2034	48,580	17,896	66,476			
2035 - 2039	86,635	5,550	92,185			
	<u>3,204,790</u> *	<u>1,125,309</u>	<u>4,330,099</u>	<u>722,271</u> *	<u>176,825</u>	<u>899,096</u>
Less Accretion	<u>88,905</u>		<u>88,905</u>	<u>43,687</u>		<u>43,687</u>
Total	<u><u>\$ 3,115,885</u></u>	<u><u>\$ 1,125,309</u></u>	<u><u>\$ 4,241,194</u></u>	<u><u>\$ 678,584</u></u>	<u><u>\$ 176,825</u></u>	<u><u>\$ 855,409</u></u>

BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 94,233	\$ 112,706	\$ 206,939	\$ 450,148	\$ 486,901	\$ 937,049
2006	90,282	108,955	199,237	468,065	486,350	954,415
2007	94,749	105,523	200,272	505,890	470,883	976,773
2008	95,696	102,335	198,031	520,075	453,678	973,753
2009	101,595	98,959	200,554	441,226	428,245	869,471
2010 - 2014	565,361	419,663	985,024	2,319,361	1,781,604	4,100,965
2015 - 2019	571,571	300,247	871,818	2,029,638	1,279,015	3,308,653
2020 - 2024	465,420	175,686	641,106	1,315,415	861,214	2,176,629
2025 - 2029	288,475	81,546	370,021	1,263,937	624,922	1,888,859
2030 - 2034	332,230	24,561	356,791	1,375,557	383,093	1,758,650
2035 - 2039	25,400	5,709	31,109	945,614	249,013	1,194,627
2040 - 2044	10,445	1,089	11,534	686,129	62,736	748,865
	<u>2,735,457</u> *	<u>1,536,979</u>	<u>4,272,436</u>	<u>12,321,055</u> *	<u>7,567,654</u>	<u>19,888,709</u>
Less Accretion	<u>16,042</u>		<u>16,042</u>	<u>1,502,180</u>		<u>1,502,180</u>
Add Premium				<u>54,319</u>		<u>54,319</u>
Less Discount				<u>21,158</u>		<u>21,158</u>
Less Loss on Refunding				<u>7,707</u>		<u>7,707</u>
Total	<u><u>\$ 2,719,415</u></u>	<u><u>\$ 1,536,979</u></u>	<u><u>\$ 4,256,394</u></u>	<u><u>\$ 10,844,329</u></u>	<u><u>\$ 7,567,654</u></u>	<u><u>\$ 18,411,983</u></u>

COMPONENT UNITS

Year	Revenue Bonds		
	Principal	Interest	Total
2005	\$ 11,306	\$ 5,355	\$ 16,661
2006	6,642	4,756	11,398
2007	5,625	4,345	9,970
2008	5,238	3,982	9,220
2009	5,717	3,641	9,358
2010 - 2014	6,199	14,860	21,059
2015 - 2019	1,441	14,144	15,585
2020 - 2024	2,049	13,634	15,683
2025 - 2029	102,201	9,638	111,839
2030 - 2034	4,287	4,394	8,681
2035 - 2039	46,242	2,309	48,551
	<u>196,947</u> *	<u>81,058</u>	<u>278,005</u>
Add Premium	<u>936</u>		<u>936</u>
Less Loss on Refunding	<u>884</u>		<u>884</u>
Total	<u><u>\$ 196,999</u></u>	<u><u>\$ 81,058</u></u>	<u><u>\$ 278,057</u></u>

* Increase is due to accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

Miscellaneous Bond Information

(Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Maturities		First Call Date
		First Year	Last Year	Year	Year	
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	\$ 4,309,330	2.00	8.00	1992	2038	07/01/04
Revenue Bonds	<u>1,442,376</u>	2.50	9.00	1991	2025	02/01/01
Governmental Activities Bond Total	<u>5,751,706</u>					
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,899,037	1.37	9.50	1993	2043	02/24/94
Revenue Bonds	<u>12,510,545</u>	1.20	15.00	1970	2044	01/01/78
Business-Type Activities Bond Total	<u>15,409,582</u>					
COMPONENT UNITS						
Revenue Bonds	<u>196,672</u>	3.25	7.10	1999	2038	02/28/02
Grand Total	<u>\$21,357,960</u>					

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs. The bonds are payable from state appropriations.

The **General Land Office/Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans. The bonds are limited and special revenue obligations of the Board payable solely from the income, revenues, receipts, and collateral pledged under the related trust indenture.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes. Loan payments provide the revenues for debt service payments. The Department has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the Water Pollution Control Revolving Fund commonly referred to as the State Revolving Fund. The proceeds are used to provide financial assistance to political subdivi-

sions to construct wastewater treatment facilities. Political subdivision bonds are pledged for debt service requirements of the bonds.

Permanent University Fund (Fund) Bonds are issued by the University of Texas and Texas A&M University Systems to build, equip, or buy buildings or other permanent improvements. The Texas Constitution limits each System's Fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of Fund assets, excluding real estate. Revenue from investments of the Fund is pledged to secure the payment of interest and principal. The cost value of Fund assets at August 31, 2004, excluding real estate, was \$7.812 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below.

Permanent University Fund Bonds

(Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	\$ 1,562,490	\$ 888,820	\$ 673,670
Texas A&M University System	<u>781,245</u>	<u>223,996</u>	<u>557,249</u>
Totals	<u>\$ 2,343,735</u>	<u>\$ 1,112,816</u>	<u>\$ 1,230,919</u>

Miscellaneous College and University Revenue Bonds are issued by colleges and universities and include (a) various series secured by pledged revenues from aux-

iliary enterprises and (b) various series secured by pledged student tuition and fees. Numerous revenue bond series have been issued by 11 state colleges and universities, and university systems.

The Texas Small Business Industrial Development Corporation (TSBIDC), a non-profit corporation came under the management of the Office of the Governor effective September 1, 2003, based on Senate Bill 275. TSBIDC's financial status is reported as a discretely presented proprietary fund of the Office. The TSBIDC bond program is composed of revenue demand bonds secured by an amended irrevocable letter of credit. Bondholders may tender the bonds for repurchase every seven days. Any bonds so tendered will be purchased with the proceeds of the remarketing of the bonds, or if not successfully marketed, from amounts drawn under the letter of credit.

The Texas Water Resources Finance Authority, a public authority created within the Texas Water Development Board, issued bonds to purchase from the Board the majority of existing political subdivision bonds held. The political subdivision bonds are pledged for debt service requirements of the bonds.

The Texas Department of Transportation Turnpike Authority issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System (CTTP). The CTTP is located in the greater City of Austin metropolitan area in Travis and Williamson Counties, Texas. The bond obligations are payable from, and secured solely by a first lien on and pledge of the Trust Estate.

Demand Bonds

The Texas Small Business Industrial Development Corporation (TSBIDC) has issued revenue bonds and the General Land Office/Veterans Land Board (GLO) has issued 15 general obligation variable rate bonds that are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. TSBIDC bond proceeds are used to issue industrial development loans to businesses and political subdivisions. GLO bond proceeds were used to fund housing and land loans to eligible Texas veterans, and to refund several bond issues. The principal balances

outstanding on these bonds at August 31, 2004 are \$99.3 million and \$630.7 million, respectively.

TSBIDC has entered into an irrevocable letter of credit agreement with Kredietbank Bank that expires July 29, 2005. The letter of credit secures the demand bonds. Interest is payable on the principal portion up to a maximum of 58 days' accrued interest at 15%. Letter of credit fees are paid quarterly at 0.4% per annum of the stated amount of the letter of credit with various applicable adjustments.

GLO has entered into a liquidity agreement with the Comptroller of Public Accounts that secures three of the bond issues. The agreement terminates on August 31, 2005. GLO pays an annual liquidity fee of 0.04% on the principal outstanding. In addition, GLO has entered into a standby bond purchase agreement with DEPFA that secures five bond issues. This agreement terminates on July 31, 2007. GLO pays an annual liquidity fee on this agreement of 0.085% on the principal outstanding. GLO has also entered into standby bond purchase agreements with Landesbank Hessen-Thüringen Girozentrale for four bond issues. These agreements terminate on December 31, 2015. Under these agreements, GLO pays an annual liquidity fee of 0.10% on the principal outstanding. GLO has also entered into standby bond purchase agreements with Dexia Credit Local for two bond issues. These agreements terminate on November 18, 2004 and on May 19, 2005. Under these agreements, GLO pays an annual liquidity fee of 0.12% on the principal outstanding. GLO has also entered into standby bond purchase agreements with State Street Bank and Trust Company for one bond issue. This agreement terminates on April 6, 2005. Under this agreement, GLO pays an annual liquidity fee of 0.12% on the principal outstanding.

The bondholder may tender any of these bonds for repurchase every seven days. Any bonds so tendered will be purchased either with the proceeds of the remarketing of such bonds, or if not successfully remarketed, from amounts drawn under the letter of credit, liquidity or standby purchase agreements. As of August 31, 2004, there have been no draws on the letter of credit or any agreements. TSBIDC and GLO do not have take out agreements as part of the letter of credit, liquidity, or standby purchase agreements nor as a separate arrangement.

Early Extinguishment of Debt

Entities that had early debt extinguishments in fiscal year 2004 are as follows.

The source of funds used for the extinguishments included loan repayments, and other available funds.

Early Extinguished Debt Issues	
(Amounts in Thousands)	
GOVERNMENTAL ACTIVITIES	
Revenue Bonds	
Texas Higher Education Coordinating Board	\$ 3,545
Governmental Activities Total	<u>3,545</u>
BUSINESS-TYPE ACTIVITIES	
Revenue Bonds	
Texas Department of Housing and Community Affairs	224,900
Texas Water Development Board	71,655
Texas Military Facilities Commission	1,705
Texas Woman's University	170
University of Texas System	<u>12,500</u>
Business-Type Activities Total	<u>310,930</u>
Grand Total	<u>\$ 314,475</u>

Refunding

During fiscal year 2004, seven entities refunded bonds to lower interest rates or to restructure debt service requirements for cash management purposes.

Refunding Issues						
(Amounts in Thousands)						
		Types of Refunding	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Difference Increase (Reduction)	Economic Gain (Loss)
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds						
Texas Higher Education Coordinating Board	Current Refunding	\$ 52,765	\$ 52,765	\$ 0	\$ 0	
		<u>52,765</u>	<u>52,765</u>	<u>0</u>	<u>0</u>	
Governmental Activities Total		<u>52,765</u>	<u>52,765</u>	<u>0</u>	<u>0</u>	
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds						
General Land Office	Current Refunding	96,700	96,700	12,453	9,533	
Texas Water Development Board	Current & Advance Refunding	<u>110,350</u>	<u>92,220</u>	<u>25,596</u>	<u>13,173</u>	
		<u>207,050</u>	<u>188,920</u>	<u>38,049</u>	<u>22,706</u>	
Revenue Bonds						
Texas Department of Housing and Community Affairs	Advance Refunding	31,500	25,015	32,162	31,436	
Texas Tech University System	Current Refunding	4,915	4,895	(153)	152	
University of Houston System	Advance Refunding	16,490	15,975	1,377	1,292	
University of Texas System	Current & Advance Refunding	<u>895,430</u>	<u>915,110</u>	<u>28,290</u>	<u>19,435</u>	
		<u>948,335</u>	<u>960,995</u>	<u>61,676</u>	<u>52,315</u>	
Business-Type Activities Total		<u>1,155,385</u>	<u>1,149,915</u>	<u>99,725</u>	<u>75,021</u>	
Grand Total		<u>\$ 1,208,150</u>	<u>\$ 1,202,680</u>	<u>\$ 99,725</u>	<u>\$ 75,021</u>	

Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Texas Treasury Safekeeping Trust Company to defease \$950 thousand in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. As of August 31, 2004, the following amounts of defeased bonds, at par, remained outstanding.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

Texas Public Finance Authority	\$ 1,084,592
Texas National Research Laboratory Commission	49,850
Texas Military Facilities Commission	5,890
Water Development Board	27,940
Department of Criminal Justice	24,090
	<u>1,192,362</u>

BUSINESS-TYPE ACTIVITIES

General Land Office and Veterans Land Board	64,700
Department of Housing and Community Affairs	24,525
Water Development Board	146,415
Texas Southern University	350
Midwestern State University	4,140
Stephen F. Austin State University	4,226
Texas Tech System	57,832
University of North Texas System	9,905
Texas State University System	30,390
University of Houston System	16,915
The University of Texas System	153,386
	<u>512,784</u>
Total	<u>\$ 1,705,146</u>

Conduit Debt

The Texas State Affordable Housing Corporation is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code §2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to non-profit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Corporation may finance single developments or pools of properties located throughout the State of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. The Corporation finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of August 31, 2004, there were thirty-three series of multifamily housing revenue bonds outstanding with an aggregate \$474 million principal amount payable.

Pay-Fixed Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
Vet Hsg Ref Bds Ser '95	\$ 71,315	11/29/1995	5.5200%	Actual Bond Rate	N/A
Vet Land Ref Bds Ser '99A	34,715	06/01/1999	5.1120%	68% of 6M LIBOR	N/A
Vet Land Tax Ref Bds Ser '99B	36,720	12/01/1999	5.1250%	100% of 6M LIBOR	1M LIBOR >= 6.50%
Vet Land Tax Ref Bds Ser 2000	39,960	12/01/2000	6.1060%	100% of 6M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2001A-2	20,000	12/03/2001	4.3000%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	4.3650%	68% of 1M LIBOR	N/A
Vet Land Bds Ser 2002	19,675	02/21/2002	4.1400%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2002A-2	37,745	07/10/2002	3.8725%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	4.9350%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2002B	21,455	12/01/2002	4.9100%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2003A	49,320	03/04/2003	3.3040%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2003B	49,895	10/22/2003	3.4030%	64.5% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2003	28,920	12/01/2003	5.1230%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	5.1900%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Land Tax Ref Bds Ser 2004A	50,000	04/07/2004	3.3130%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2004A	19,550	06/01/2004	5.4500%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2004B	50,000	09/15/2004	3.6800%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2004	24,755	12/01/2004	5.4550%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2004B	43,870	12/01/2004	5.3480%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2005	22,795	12/01/2005	6.5170%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006	31,030	06/01/2006	6.5400%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006	22,325	06/01/2006	5.7900%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006A	38,570	06/01/2006	5.8300%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006A	41,050	12/01/2006	6.5130%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006B	39,560	12/01/2006	5.4610%	100% of 1M LIBOR	1MLIBOR>= 6M LIBOR>4.00% and BMA/LIBOR ratio >74.00%
Vet Hsg Fund II Tax Ref Bds Ser 2009	16,950	12/01/2009	6.2200%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Total	\$910,725				

Concluded on the following page

DERIVATIVES

During fiscal year 2004, Veterans Land Board (the Board) and University of Texas System (the System) have reported derivatives.

Pay-Fixed, Receive-Variable Interest Rate Swaps (Veterans Land Board)

Objective of the Swaps: The Board is currently a party to twenty six pay-fixed, receive-variable interest rate swaps that are associated with twenty-six variable-rate bond issues. The combination of swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the Board's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds. Several of the swaps contain embedded barrier options that provide for the Board to be "knocked out" of the swaps by the respective counter-

parties upon the breach of a certain predetermined barrier. In each of these cases, the Board was paid an up-front option premium by the respective counterparties. With regard to the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000, the knock-outs are permanent and are optional at the discretion of the counterparty. In the remainder of the swaps with embedded barrier options, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the barrier was breached.

Terms, Fair Values, and Credit Ratings: The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of August 31, 2004, are shown in the table above and on the following page. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Fixed Receive-Variable Interest Rate Swaps (concluded)

(Amounts in Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings
Vet Hsg Ref Bds Ser '95	N/A	N/A	N/A	\$ (11,312)	12/01/2016	AAA/Aaa
Vet Land Ref Bds Ser '99A	N/A	N/A	N/A	(5,234)	12/01/2018	AAA/Aaa
Vet Land Tax Ref Bds Ser '99B	Optional	Permanent	\$ 740	(2,641)	12/01/2009	AA+/Aaa
Vet Land Tax Ref Bds Ser 2000	Optional	Permanent	2,700	(7,240)	12/01/2020	AA+/Aaa
Vet Hsg Fund II Bds Ser 2001A-2	N/A	N/A	N/A	(1,973)	12/01/2029	AA-/Aa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A	N/A	N/A	(3,128)	12/01/2033	AA+/Aaa
Vet Land Bds Ser 2002	N/A	N/A	N/A	(1,830)	12/01/2032	AA-/Aa3
Vet Hsg Fund II Bds Ser 2002A-2	N/A	N/A	N/A	(1,809)	06/01/2033	AAA/Aaa
Vet Land Tax Ref Bds Ser 2002	Mandatory	Periodic	2,785	(2,649)	12/01/2021	AA-/Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2002B	Mandatory	Periodic	2,165	(1,893)	06/01/2023	AA+/Aaa
Vet Hsg Fund II Bds Ser 2003A	N/A	N/A	N/A	(600)	06/01/2034	AA-/Aa3
Vet Hsg Fund II Bds Ser 2003B	N/A	N/A	N/A	(1,253)	06/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2003	Mandatory	Periodic	1,896	(2,847)	12/01/2023	AA-/Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2003	Mandatory	Periodic	4,470	(5,425)	06/01/2021	AA+/Aaa
Vet Land Tax Ref Bds Ser 2004A	N/A	N/A	N/A	(628)	12/01/2034	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2004A	Mandatory	Periodic	1,442	(2,356)	12/01/2024	AAA/Aaa
Vet Hsg Fund II Bds Ser 2004B	N/A	N/A	N/A	(1,940)	12/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2004	Mandatory	Periodic	2,075	(2,889)	12/01/2024	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2004B	Mandatory	Periodic	2,594	(4,461)	06/01/2020	AA-/Aa3
Vet Land Tax Ref Bds Ser 2005	Mandatory	Periodic	1,542	(3,835)	12/01/2026	AAA/Aaa
Vet Land Tax Ref Bds Ser 2006	Mandatory	Periodic	1,931	(4,795)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006	Mandatory	Periodic	1,493	(2,305)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006A	Mandatory	Periodic	1,992	(4,709)	12/01/2026	AA-/Aa3
Vet Land Tax Ref Bds Ser 2006A	Mandatory	Periodic	2,725	(5,890)	12/01/2027	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006B	Mandatory	Periodic	2,652	(5,028)	12/01/2026	AA-/Aa3
				1,018		
				612		
				(1,057)		
				\$ 34,832		
				\$ (89,727)		
Vet Hsg Fund II Tax Ref Bds Ser 2009	Mandatory	Periodic			12/01/2021	AAA/Aaa
Total						

Pay-Variable, Receive-Variable Interest Rate Swaps

(Veterans Land Board)

Objective of the Swaps: The Board is currently a party to four pay-variable, receive-variable interest rate swaps that are associated with three taxable variable-rate bond issues. These swaps are LIBOR-to-BMA basis swaps and effectively convert the variable rate on the associated vari-

able-rate bond issues from a LIBOR (taxable) based rate to a BMA (tax-exempt) based rate. The swaps are expected to generate an effective lower borrowing cost to the Board over the life of the swaps.

Terms, Fair Values, and Credit Ratings: The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of August

Pay-Variable Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Variable-Rate Received	Fair Value	Swap Termination Date	Counter-party Credit Ratings
Vet Hsg Fund II Tax Bds Ser '97B-2	\$ 25,000	09/27/2002	132.60% of BMA	100% of 3M LIBOR	\$ (28)	12/01/2010	AA-/Aa3
Vet Hsg Fund II Tax Bds Ser '99A-2	90,000	08/05/2002	134.40% of BMA	100% of 1M LIBOR	(641)	09/01/2011	AAA/Aaa
Vet Hsg Fund II Tax Bds Ser '99A-2	60,000	08/05/2002	134.40% of BMA	100% of 1M LIBOR	(368)	09/01/2011	AA+/Aaa
Vet Land Tax Bds Ser 2000A/2002A	38,995	08/05/2002	131.25% of BMA	100% of 1M LIBOR	(803)	12/01/2032	AA-/Aa3
Total	\$213,995				\$ (1,840)		

31, 2004, are shown in the table on the previous page. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Swap Transactions (Veterans Land Board)

Fair Value: The fair values of the swaps were estimated using the zero-coupon method. Using observable market information for Treasury bonds and LIBOR spreads, a smoothed LIBOR swap yield curve is constructed. From this swap yield curve, the path of future expected floating LIBOR interest rates is determined for a specific swap transaction. The path of the floating payments is then averaged together to produce a single fixed swap rate for the same time horizon as the swap being valued. The difference between this calculated fixed swap rate and the actual fixed swap rate on the transaction is then multiplied by the applicable outstanding notional amount at each future payment date to generate a series of payments. These payments are then discounted back to the valuation date using hypothetical zero-coupon bond rates derived from the LIBOR swap yield curve. The sum of these discounted payments produces the fair value of the swap.

For swaps with embedded options, an additional calculation similar to that described above is conducted to determine the value of the options. Using the approach described above, a swap rate is derived for each potential exercise date of each option. Market-derived data for interest rate volatility is then used to determine a probabilistic range of potential swap rates. For each potential swap rate, a value is determined for the option. These values are then weighted by their probabilities and discounted back to the valuation date using hypothetical zero-coupon bond rates as described above. The sum of the present value of the values for each exercise date produces the fair value of the option.

Credit Risk: The Board mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. As shown in the table on the previous page, the credit ratings of the Board's counterparties range from AAA to AA- by Standard & Poor's and Aaa to Aa3 by Moody's Investors Service.

The Board also mitigates its concentration of credit risk by diversifying its swap portfolio across several different

counterparties. The Board's 30 currently outstanding swaps are spread among seven different counterparties, with no more than 25% of the total notional amount of swaps outstanding being associated with any single counterparty.

The Board's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is at or below A+ by Standard & Poor's or A1 by Moody's Investors Service. Only U.S. government obligations are acceptable forms of collateral. Posted collateral may be held either by the Board itself or by a third party custodian that is rated at least BBB+ by Standard & Poor's or Baa1 by Moody's Investors Service.

Basis Risk: The Board is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The Board mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue, and (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue.

Termination Risk: The Board or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. The Board also has the right to terminate any of the swaps at any time without cause. In addition, the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed rate, and the Board would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the Board's balance sheet. Also, if at the time of termination for a reason other than the exercise of a termination option held by a counterparty, a swap has a negative fair value, the Board would owe the respective counterparty a termination payment equal to the swap's fair value.

Rollover Risk: The swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions at any time on or after April 29, 2002. If either of these swaps are terminated through the counterparty's exercise of its option, the associated variable-rate bonds would no longer have a synthetic fixed rate, and the Board would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the Board's balance sheet.

Bonds that are exposed to such rollover risk are shown in the table below.

Interest Rate Swaps Subject to Rollover

Associated Bond Issue	Maturity Date of Bonds	Option Exercise Date	Swap Termination Date
Vet Land Tax Ref Bds Ser '99B	12/01/2009	04/29/2002	12/01/2009
Vet Land Tax Ref Bds Ser 2000	12/01/2020	04/29/2002	12/01/2020

Swap Payments and Associated Debt: Using rates as of August 31, 2004, the estimated debt service requirements of the Board's variable-rate bonds and associated net swap payments, *assuming current interest rates and swap index relationships remain the same* for their terms, are shown in the tables on the following page. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Inverse Floating-Rate Bonds (Veterans Land Board)

The Veterans Land Board delivered its \$6 million State of Texas Veterans Housing Assistance Bonds, Series 1994B-2 (auction rate securities) and \$6 million State of Texas Veterans Housing Assistance Bonds, Series 1994B-3 (inverse floaters), on March 15, 1994.

The aggregate interest payable by the Board on the aggregate outstanding principal amounts of auction rate securities and the inverse floaters, which will always be equal, is fixed and will be derived by applying the notional rate (5.7%) to the aggregate outstanding principal of the auction rate securities and the inverse floaters. See the bonds'

Official Statement for more details on the calculation of the interest payment. The Official Statement may be obtained by contacting Veterans Land Board at P.O. Box 12873, Austin, Texas 78711-2873.

Forward Floating-to-Fixed Interest Rate Swaps (University of Texas System)

Objective of the interest rate swap: In June 1999, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements ("Swap Agreements") with Morgan Guaranty Trust Company of New York, now J.P. Morgan Chase Bank ("Morgan"), and Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman"). The

Swap Agreements were used to create a synthetic fixed-rate refunding of \$80.5 million of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and 1991B ("Refunded Bonds") on their optional redemption date of August 15, 2001 to achieve debt service savings. On May 17, 2001, the U.T. System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The Swap Agreements effectively change the U. T. System Board of Regent's interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633%. The difference between the swap rate and the rates on the Refunded Bonds called August 15, 2001, resulted in estimated present value debt service savings of approximately \$5.6 million.

Terms: Pursuant to the terms of the Swap Agreements, the U. T. System Board of Regents has agreed to pay interest on a notional amount of \$80.5 million at a fixed rate of 4.633% per annum, with such obligation commencing on August 15, 2001. In consideration of receiving the payments from the U. T. System Board of Regents, Morgan and Goldman have agreed to pay to the U. T. System Board of Regents a variable rate equal to 67% of the one-month London Interbank Offered Rate ("LIBOR"). The Morgan Swap Agreement is for 60% of the notional amount and the Goldman Swap Agreement is for 40% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Swap Agreements are scheduled to terminate on August 15, 2013. As of August 31, 2004, there was \$45.57 million

Pay-Fixed, Receive-Variable Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2005	\$ 17,020	\$ 8,156	\$ 18,836	\$ 44,012
2006	20,010	7,897	18,217	46,124
2007	20,920	7,604	17,531	46,055
2008	20,825	7,310	16,838	44,973
2009	21,675	7,009	16,126	44,810
2010 - 2014	111,145	30,750	70,138	212,033
2015 - 2019	156,625	20,920	45,629	223,174
2020 - 2024	106,175	10,668	21,838	138,681
2025 - 2029	55,935	5,354	10,765	72,054
2030 - 2034	49,410	1,619	3,234	54,263
2035 - 2039	80	1	1	82
Total	<u>\$ 579,820</u>	<u>\$ 107,288</u>	<u>\$ 239,153</u>	<u>\$ 926,261</u>

Pay-Variable, Receive-Variable Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2005	\$ 550	\$ 3,378	\$ 205	\$ 4,133
2006	585	3,369	205	4,159
2007	620	3,359	205	4,184
2008	660	3,349	204	4,213
2009	700	3,339	204	4,243
2010 - 2014	4,220	16,509	534	21,263
2015 - 2019	5,700	16,122	90	21,912
2020 - 2024	15,215	15,453	70	30,738
2025 - 2029	26,135	13,756	42	39,933
2030 - 2034	<u>159,610</u>	<u>1,408</u>	<u>8</u>	<u>161,026</u>
Total	<u>\$ 213,995</u>	<u>\$ 80,042</u>	<u>\$ 1,767</u>	<u>\$ 295,804</u>

of the Series 2001A Bonds outstanding and the notional amount of the Swap Agreements was \$44.9 million.

Fair Value: Because interest rates have declined since the execution of the Swap Agreements, the Swap Agreements have a negative fair value of \$3.6 million as of August 31, 2004. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Basis and Termination Risk: The Swap Agreements expose the U. T. System Board of Regents to basis risk as the variable rate received under the Swap Agreements does

not perfectly match the variable rate paid on the Series 2001A Bonds. Each Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Aa3 by Moody's Investors Service ("Moody's") or AA- by Standard & Poor's Corporation ("S&P"). As of August 31, 2004, the swap providers' respective ratings by Moody's/S&P are as follows: J.P. Morgan Chase Bank, Aa2/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AA+. The Swap Agreements may also be terminated by Morgan or Goldman, respectively, if the U.T. System Board of Regents does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P.

Note 7

Capital Leases

The state has entered into long-term capital leases to buy certain assets. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

Future Capital Lease Payments											
For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)											
Year	Primary Government						Discretely Presented Component Units				
	Governmental Activities			Business-Type Activities			Discretely Presented Component Units				
	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest
2005	\$ 4,107	\$ 3,282	\$ 7,389	\$ 1,981	\$ 520	\$ 2,501	\$ 218	\$ 15	\$ 233		
2006	4,132	2,997	7,129	1,509	422	1,931	180	30	210		
2007	4,140	2,733	6,873	838	362	1,200	18	1	19		
2008	3,284	2,470	5,754	861	326	1,187	18	1	19		
2009	3,531	3,267	6,798	739	291	1,030					
2010 - 2014	16,024	7,294	23,318	2,338	1,089	3,427					
2015 - 2019	6,224	3,532	9,756	2,220	550	2,770					
2020 - 2024	6,396	1,065	7,461	1,312	194	1,506					
2025 - 2029				329	31	360					
Totals	<u>\$ 47,838</u>	<u>\$ 26,640</u>	<u>\$ 74,478</u>	<u>\$ 12,127</u>	<u>\$ 3,785</u>	<u>\$ 15,912</u>	<u>\$ 434</u>	<u>\$ 47</u>	<u>\$ 481</u>		

The following table is an analysis of the property acquired under capital leases by asset category at August 31, 2004.

Assets Under Capital Leases								
(Amounts in Thousands)								
Class of Property	Primary Government						Discretely Presented Component Units	
	Governmental Activities		Business - Type Activities					
	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation		
Land	\$ 2,076	\$	\$ 456	\$	\$	\$		
Buildings	56,399	15,714	10,144	637				
Furniture and Equipment	5,269	2,132	6,261	2,155	503	224		
Vehicles, Boats, etc.	79	6	397	49				
Totals	<u>\$ 63,823</u>	<u>\$ 17,852</u>	<u>\$ 17,258</u>	<u>\$ 2,841</u>	<u>\$ 503</u>	<u>\$ 224</u>		

Note 8 Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis that have been classified as operating leases. The following is a schedule of minimum future rentals on noncancelable operating leases as of August 31, 2004.

Noncancelable Operating Leases		
(Amounts in Thousands)		
Minimum Future Rentals As of August 31, 2004	Minimum Future Lease Payments	
	Primary Government	Component Units
2005	\$ 227,322	\$ 1,362
2006	180,379	1,108
2007	146,548	1,001
2008	91,540	791
2009	66,636	682
2010 - 2014	139,025	1,223
2015 - 2019	4,755	
2020 - 2024	3,636	
2025 - 2029	3,636	
2030 - 2034	2,182	
Total	\$ 865,659	\$ 6,167

Note 9 Retirement Systems

The State of Texas has three public employee retirement systems (PERS) that administer seven defined benefit plans and one defined contribution plan. All defined benefit plans are included in the state's financial statements as pension trust funds. Amounts and types of securities held by the retirement systems are included in Note 3. The three agencies that administer the plans, the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS) and the Fire Fighters' Pension Commission (FPC) issue separate financial reports. These reports are audited as individual entities with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commission
920 Colorado Street, 11th Floor
Austin, Texas 78701-2332

The state has also established a defined contribution plan as authorized by Tex. Gov. Code, Chapter 830, an optional retirement program for agencies and institutions of higher education. Participation in the optional retirement program provides for the purchase of annuity contracts from any insurance or annuity company that is qualified to do business in Texas. With the purchase of these individual annuity contracts, the state has effectively transferred the obligation for the payment of benefits to the company. In the event of the insurance or annuity company's insolvency, the state does not guarantee benefits. The contributory percentages of participant salaries provided by each participant and the state were 6.65% for the participant and 6% for the state. In addition, the Texas Higher Education Coordinating Board and institutions of higher education contributed 2.5% from operating funds for this retirement program. For the year ended August 31, 2004, the state's expense/contribution was \$64,931,744.

GASB Statement No. 26 *Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans*, is not applicable for the State of Texas since the health care plans are not administered by the pension trust funds.

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of the Employees Retirement System of Texas is the administrator of the Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), and the Judicial Retirement System of Texas Plan

One and Plan Two (JRS). Each of these plans is considered to be a single-employer defined benefit pension plan.

Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. A Partial Lump Sum Payment Option is available to members of the employee class, the elected class, and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life. The benefit and contribution provisions are authorized by state law and may be amended by the Texas Legislature. Contribution requirements are not actuarially determined, but are set by legislation.

The Employees Retirement System of Texas's audited report contains the actuarial valuations as of August 31, 2004, along with an actuarial letter dated December 8, 2004. No subsequent legislative action that would negatively affect their certification of actuarial soundness of the funds was noted.

Employees Retirement System of Texas Plan

The Employees Retirement System of Texas Plan, established by the Tex. Gov. Code, Title 8, Subtitle B, covers elected class members, employee class members and commissioned peace officers and custodial officers. The funding policy requires monthly contributions by both the state and employees (see Funding Information, Actuarial Methods, and Assumptions Table). The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

- The elected class members are vested after eight years of credited service and may retire at age 50 with twelve years of service or at age 60 with eight years of service. The statutorial percentage is equal to 2.3% of the current state salary of a district judge.
- The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by the Teacher Retirement System and the Judicial Retirement System. Employee class retirement benefits vest after five years of credited service and employees

may retire at age 60 with five years of service or at any age when the combination of age and service (including months) total 80. The statutorial percentage is equal to 2.3% of the average of the highest 36 months of compensation. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100% of the average monthly compensation.

- Commissioned peace officers and custodial officers may retire at age 55 with ten years or at age 50 with twenty years of service.

Law Enforcement and Custodial Officer Supplemental Retirement Plan

The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), established under Tex. Gov. Code, sec. 814.107, covers statutorily certified custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, who have contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50, if vested, or the age at which the sum of the member's age and amount of service credit in the employee class equals 80. A member may receive reduced benefits once they complete 20 years of service, regardless of age. The monthly benefit at retirement is payable in a life only form of annuity. The monthly annuity is equal to 2.8% of average monthly compensation multiplied by years of service. Average monthly compensation is the average of the highest 36 months of salary out of the member's established service. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100% of the average monthly compensation.

For the bienniums ending August 31, 2003 and August 31, 2005, the state has not and will not be required to contribute to this fund. Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement.

Judicial Retirement System of Texas

Plans One and Two

The Judicial Retirement System of Texas Plans One and Two cover judges, justices, and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts, and certain commissions to a court. Members prior to August 31, 1985 participate in Plan One and all others participate in Plan Two. Participants in both plans may retire at age 65 with ten years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with twelve years of service. Members of Plan One may retire at any age with 20 years of service. Members in Plan Two can retire at age 55 with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete ten years of service if the member currently holds judicial office with at least the last year being continuous, or at age 60 with twelve years of service.

The monthly benefit at retirement is payable in a life only form of annuity. The monthly benefit for members of both plans is equal to 50% of the salary for the position from which the member retired increased by 10% of final compensation if in office within one year of benefit commencement.

Tex. Gov. Code, Title 8, Subtitle D requires employees to contribute 6% of their compensation and the state to make appropriations from the General Revenue Fund sufficient to administer the Judicial Retirement System Plan One. The contribution requirements are not actuarially determined since it is not funded in advance. There are actuarial valuations and an actuarial cost method only for fulfilling GASB Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers* requirements.

The funding policy of the Judicial Retirement System Plan Two is established by Tex. Gov. Code, Title 8, Subtitle E. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based upon an actuarial valuation. Significant actuarial assump-

tions are the same as those used to compute the net pension benefit.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas is a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employer (unless the employer is a senior college, medical school, or a state agency in which case the employer is considered the State of Texas) but are the liability of the State of Texas. The plan is reported under the sole-employer provisions of GASB Statement No. 27 since the State of Texas is legally responsible for a significant portion of the annual required contributions. The Teacher Retirement System of Texas administers retirement, proportional retirement, disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. The benefit and contribution provisions of this plan are authorized by state law and may be amended by the Texas Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Tex. Gov. Code, Title 8, Subtitle C, are covered by the system.

A member is vested after five years of creditable service and is eligible to retire at a future date and receive a lifetime monthly annuity. The normal service retirement is at age 65 with five years of credited service, or when the sum of the member's age and years of credited service equals or exceeds 80 years. The service age requirement for early retirement is age 55 with five years of credited service or any age below 50 with thirty years of credited service. The standard life annuity benefit formula is 2.3% of the average of the three highest annual salaries multiplied by the years of service. At normal retirement age, the minimum monthly standard annuity is the greater of \$150, or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at retirement.

At August 31, 2004, the number of participating employing districts was as follows:

Employing Districts

Public Schools, Service Centers and Charter Schools	1,253
Colleges, Universities, and Medical Schools	102
Educational State Agencies	3
Total	<u>1,358</u>

Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy.

The State Constitution requires the Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the System during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

The Teacher Retirement System also offers two other annuity payment options:

- The Deferred Retirement Option Plan (DROP)

DROP allows members to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years.

- A Partial Lump-Sum Cash Option

The Partial Lump-Sum Cash Option reduces the standard monthly annuity. Members may select a partial lump sum distribution equal to 12, 24, or 36 months of a standard monthly annuity. This option is not available to those in DROP at the time of retirement, to those taking an early-reduced annuity, or to existing retirees (including disability retirees).

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for plans subject to sole-employer provisions of GASB Statement No. 27 for fiscal year 2004 are presented below.

Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

	ERS	LECOs	JRS1	JRS2	TRS*	FPC**
Annual Required Contribution, ARC	\$ 312,285	\$ 0	\$ 21,863	\$ 5,790	\$ 1,529,470	\$ 0
Interest on Net Pension Obligation, NPO	(12,276)		6,979	(171)	18,999	
Adjustment to ARC	7,582		(7,040)	105	(15,193)	
Annual Pension Cost	<u>307,591</u>	<u>0</u>	<u>21,802</u>	<u>5,724</u>	<u>1,533,276</u>	<u>0</u>
Employer Contributions Made	278,845	0	22,621	8,205	1,241,789	0
Increase (Decrease) in NPO	28,746	0	(819)	(2,481)	291,487	0
Net Pension Obligation, September 1, 2003	(153,448)	0	87,237	(2,132)	237,489	650
Restatement						(650)
Net Pension Obligation, September 1, 2003, as Restated	(153,448)	0	87,237	(2,132)	0	0
Net Pension Obligation/(Asset), August 31, 2004***	<u>\$ (124,702)</u>	<u>\$ 0</u>	<u>\$ 86,418</u>	<u>\$ (4,613)</u>	<u>\$ 528,976</u>	<u>\$ 0</u>

* The sole-employer provisions of GASB Statement No. 27 applies to TRS.

** An NPO calculation is not applicable for the FPC since contributions are received from member fire departments. The state's contribution, if any, would be insignificant.

*** See "Funding Information, Actuarial Methods, and Assumptions" table for actuarial assumptions used in determining cost and obligation.

Retirement Systems' Membership

	ERS*	LECOS*	JRS1*	JRS2*	TRS*	FPC**
Retirees and Beneficiaries Currently Receiving Benefits	60,089	4,576	494	72	240,627	1,557
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	54,658	30	15	79	43,151	1,827
Current Employees: Vested and Non-Vested	<u>133,349</u>	<u>38,305</u>	<u>53</u>	<u>484</u>	<u>815,538</u>	<u>4,610</u>
Total Members	<u>248,096</u>	<u>42,911</u>	<u>562</u>	<u>635</u>	<u>1,099,316</u>	<u>7,994</u>

* Totals are from actuarial valuations as of August 31, 2004.

** This total includes 668 retirees and beneficiaries from the TLFFRA (Texas Local Firefighters Retirement Act) plan as of August 31, 2004.

Funding Information, Actuarial Methods, and Assumptions

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS	FPC*
Contribution Rates						
Employees	6.0%	0.0%	6.0%	6.0%	6.4%	0.0%
Legislators	8.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Employer**	6.0%	0.0%	103.8%	16.8%	6.0%	0.0%
Annual Pension Cost	\$307,591	\$0	\$21,802	\$5,724	\$1,533,276	\$2,897
Employer Contributions Made	\$278,845	\$0	\$22,621	\$8,205	\$1,241,789	\$1,891
Actuarial Valuation Date	August 31, 2004	August 31, 2004	August 31, 2004	August 31, 2004	August 31, 2004	August 31, 2004
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age Normal	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open	Level Dollar Open
Remaining Amortization Period of Unfunded Liability	40 years	3.7 years	40 years	40 years	30 years	30 years
Asset Valuation Method	5-year Smoothed Fair Value	5-year Smoothed Fair Value	N/A	5-year Smoothed Fair Value	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:						
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	5.8-10.8%	6.0%-14.0%	4.0%	4.0%	4.25%-26.40%	0.0%
Includes Inflation at Cost-of-Living Adjustments	4.0% None-Employee 4.0%-Elected	4.0% None	4.0%	4.0%	3.0% None	4.0% None

* Benefits are not based on the salaries of members.

** Contribution requirements for JRS2 are actuarially determined each even-numbered year.

TRS and ERS contribution requirements are based on actuarial evaluations as established by state statute.

Fire Fighters' Pension Commission

The Fire Fighters' Pension Commission is the administrator of two pension plans:

- The Texas Statewide Emergency Services Retirement Act (TSESRA) Fund; and
- The Texas Local Fire Fighters Retirement Act (TLFFRA).

TSESRA is a cost-sharing multiple-employer pension plan established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without pay. At August 31, 2004, there were

177 member fire departments participating in the pension system.

The funding policy, established by statute, requires monthly contributions from the member fire departments of at least \$12 for each member fire fighter. Additional contributions by the member fire departments may be necessary to pay for unfunded prior service costs, and "buy backs" of vested benefits required by the state. The state may also be required to make a limited amount of annual contributions to make the fund actuarially sound. The contributions may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. Because the state's

Schedule of Funding Progress

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System (ERS)						
8/31/04	\$ 20,036,647	\$ 20,591,848	\$ (555,201)	97.3%	\$ 4,616,761	(12.0)%
8/31/03	19,478,555	19,959,112	(480,557)	97.6%	4,800,612	(10.0)%
8/31/02	18,909,072	18,449,521	459,551	102.5%	4,979,532	9.2%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
8/31/04	\$ 679,243	\$ 621,457	\$ 57,786	109.3%	\$ 1,230,581	4.7%
8/31/03	666,588	597,914	68,674	111.5%	1,277,894	5.4%
8/31/02	655,979	526,205	129,774	124.7%	1,298,593	10.0%
Judicial Retirement System Plan One (JRS1)						
8/31/04	\$ 0	\$ 263,068	\$ (263,068)	0.0%	\$ 4,921	(5,345.8)%
8/31/03	0	262,766	(262,766)	0.0%	3,710	(7,082.6)%
8/31/02	0	336,960	(336,960)	0.0%	8,240	(4,089.3)%
Judicial Retirement System Plan Two (JRS2)						
8/31/04	\$ 145,538	\$ 123,913	\$ 21,625	117.5%	\$ 48,504	44.6%
8/31/03	129,426	111,116	18,310	116.5%	47,479	38.6%
8/31/02	114,433	103,229	11,204	110.9%	45,965	24.4%
Teacher Retirement System of Texas (TRS)						
8/31/04	\$ 88,783,871	\$ 96,736,525	\$ (7,952,654)	91.8%	\$ 25,484,585	(31.2)%
8/31/03	89,033,024	94,263,028	(5,230,004)	94.5%	25,756,163	(20.3)%
8/31/02	86,034,963	89,322,406	(3,287,443)	96.3%	24,818,417	(13.2)%
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAL Per Member Covered (not rounded)
Texas Statewide Emergency Services Retirement Act (TSESRA)						
8/31/04	\$ 38,141	\$ 51,567	\$ (13,426)	74.0%	7,994	1,680
8/31/02*	32,797	45,976	(13,179)	71.3%	7,669	1,718
8/31/00	36,768	36,049	719	102.0%	7,114	(101)

* Actuarial assumptions and methodology were changed for the August 31, 2002 valuation.

contribution is not significant, the state is not considered an employer; therefore the sole-employer reporting provisions of GASB Statement No. 27 for net pension obligation calculations are not applicable.

Eligible members include volunteer emergency service personnel who are members in good standing of a qualifying fire-fighting unit. Members are vested, beginning with the fifth year of service, at 5% per year of service for the first ten years and 10% for each of the next five years of service.

Upon reaching age 55, a vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times his governing body's average contribution over his years of service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7% compounded annually.

Actuarial valuations are performed biennially. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's spouse and dependents.

The member fire department contributions to the fund for the years ending August 31, 2004, 2003, and 2002, were \$1,891,243, \$1,833,310, and \$1,817,869, respectively, equal to the required contributions for each year.

TLFFRA, established by statute, is an agent multiple-employer plan. Actuarial valuations are not obtained for plans which are pay-as-you-go and, therefore, are not presented on the Schedule of Funding Progress. It is not cost beneficial to obtain valuations and the TLFFRA assets are less than 1% of the TSESRA and TLFFRA plans combined.

Upon election, a department under TLFFRA can merge with the TSESRA plan. At August 31, 2004, there were 111 plans merged into the TSESRA plan. Benefit determinations for these plans are determined by each local governing board. Members under both plans are eligible for retirement service at age 55 with 5 years of service

credited in the retirement system. Monthly benefits payable for service retirement is six times the average contribution rate per member. Authority for contributions is established by statute. Members vested under the TLFFRA plan will be paid by the Commission with funds received from the local governing bodies on a pay-as-you-go basis. The liabilities of the TLFFRA pension plan are always equal to the assets and therefore, there is no fund balance.

Contributions are not actuarially determined and the state has no legal obligation for benefit payments. As of August 31, 2004, membership consisted of 668 retirees and beneficiaries.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Included in the audited financial reports for the Employees Retirement System of Texas, the Teacher Retirement System of Texas, and the Fire Fighters' Pension Commission are:

- (1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.
- (2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions of the employer (ARC) and the contributions made by the employers in relation to the ARC.

The table on the previous page presents the funding progress for the three most recent actuarial valuations of each plan. The following table presents the three-year trend information regarding annual pension cost and net pension obligation of the plans. The TLFFRA plan which is not funded in advance is not included in the funding progress or the three-year trend information tables.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees Retirement System (ERS)			
8/31/04	\$ 307,591	90.7%	\$ (124,702)
8/31/03	306,941	98.2%	(153,448)
8/31/02	284,461	105.8%	(158,834)
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)			
8/31/04	\$ 0	0.0%	\$ 0
8/31/03	0	0.0%	0
8/31/02	0	0.0%	0
Judicial Retirement System Plan One (JRS1)			
8/31/04	\$ 21,802	103.8%	\$ 86,418
8/31/03	29,576	275.2%	87,237
8/31/02*			
Judicial Retirement System Plan Two (JRS2)			
8/31/04	\$ 5,724	143.3%	\$ (4,613)
8/31/03	7,710	92.9%	(2,132)
8/31/02	7,311	106.7%	(1,548)
Teacher Retirement System of Texas (TRS)			
8/31/04	\$ 1,533,276	81.0%	\$ 528,976
8/31/03	1,476,559	84.0%	237,489
8/31/02	1,201,258	100.0%	0
Texas Statewide Emergency Services Retirement Act (TSESRA)**			
8/31/04	\$ 2,897	65.0%	\$ 0
8/31/02	2,600	75.0%	650
8/31/00	0	0.0%	0

* Information was not reported in fiscal year 2002 audited Annual Financial Report.

** TSESRA is not subject to NPO calculation since the state's contributions are insignificant.

Note 10 Deferred Compensation

The state's deferred compensation plan complies with the Internal Revenue Code Section 457 and is accounted for according to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement establishes accounting and financial reporting standards for Internal Revenue Code Section 457 relating to deferred compensation plans of state and local governments.

The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not

available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of deferred compensation, all property and rights purchased with those amounts and all income attributed to those amounts, property, or rights are held in trust by the Board of Trustees for the exclusive benefit of participants and their beneficiaries and may not be used for, or diverted to, any other expense except to defray the reasonable expenses of administering the plan. The state has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

The deferred compensation plan balances are recorded in pension trust funds at fair value. The estimated fair value of the aggregate deferred compensation plan assets was \$256 million as of August 31, 2004.

The state also administers another plan, "TexaSaver," created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the state nor does the state have a liability related to this plan.

Note 11 Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state administers four programs which provide health care and life insurance benefits for retired employees, their spouses, and beneficiaries. Benefits are authorized by statute and contributions are determined by the General Appropriations Act.

The Employees Retirement System (ERS) administers the program for state retirees with at least 10 years of state service under the retirement programs of ERS or the Teacher Retirement System (TRS). Retirees who elected to participate in the Optional Retirement Program are also eligible for these benefits, providing that contributions have not been withdrawn.

Public school district retirees that are members of TRS are eligible for this program as of September 1, 2002.

The University of Texas System and the Texas A&M University System provide separate post-employment health

care and life insurance coverages to their retirees, surviving spouses, and beneficiaries. Substantially all of the employees under the university systems that reach normal retirement age while working for the state may become eligible for the health and life insurance benefits.

For the year ended August 31, 2004, the state made monthly contributions for health care and life insurance. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

State Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2004

Level of Coverage	TRS	ERS	Texas A&M University	University of Texas*
Retiree Only	\$ 300	\$ 300	\$ 288	\$ 289
Retiree/Spouse	\$ 472	\$ 472	\$ 420	\$ 441
Retiree/Children	\$ 415	\$ 415	\$ 371	\$ 386
Retiree/Family	\$ 586	\$ 586	\$ 486	\$ 538

* The amounts shown for the University of Texas represent self-funded insurance. The monthly contribution per full-time retirees participating in the fully insured programs (HMO's) ranged from \$288 to \$591 depending upon the region and the level of coverage selected.

TRS administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care) provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents. Basic coverage includes participation in a major medical group health insurance plan with deductibles of \$1,800 with Part A Medicare and \$4,500 without. Funding for free basic coverage is provided based on public school district payroll. The State of Texas and active school employee contribution rates are 1.0% and .50% of school district payroll, respectively.

The cost of state retirees' health care and life insurance benefits and TRS-Care is financed on a pay-as-you-go-basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Expenditures recognized for fiscal year 2004 for retiree health and life insurance benefits paid for by the state are shown below.

Post Employment Health Care and Life Insurance

Benefits Provided Through:	Number of Retirees	Cost (In Thousands)
Employees Retirement System	70,406	\$ 286,030
University of Texas System	13,181	26,557
Texas A&M University System	5,724	23,861
Teacher Retirement System (Public School District Employees)	177,454	454,792
Total	<u>266,765</u>	<u>\$ 791,240</u>

Note 12 Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions under GASB Statement No. 34 refers to financial interactions with legally separate entities, i.e., discrete component units and other governments and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables, classified as either current or non-current.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after non-operating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year end are accrued as Due From/Due To. Activity occurring within the same fund has been eliminated. Additional eliminations have been made and transfers in and out have been netted and presented in the government-wide statement of activities as "Transfers-Internal Activities".

According to GASB Statement No. 34, certain reclassifications and eliminations have been made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units have been reported as revenues and expenses, as if they were external transactions on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds have been reported as transfers on the fund financial statements and were reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements.

Due From/Due To amounts between the primary government and the discretely presented component units are reported separately from Due From/Due To

amounts between funds in the fund financial statements and the government-wide financial statements, according to GASB Statement No. 34. Due From/Due To amounts between governmental or business-type activities and fiduciary funds are reported as Due From/Due To amounts between funds in the fund financial statements and are reclassified to Receivables From Fiduciary Funds/Payables To Fiduciary Funds, as if they were external transactions on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

There is no unusual interfund activity for fiscal year 2004. The non-current interfund receivables/payables include loans for energy efficiency programs of approximately \$16 million. Significant transfers include a \$1 billion transfer from lottery earnings to the Foundation School Fund for educational programs, a \$352 million transfer from the General Revenue Fund to the Economic Stabilization Fund, a \$2 billion transfer from the General Revenue Fund to the Highway Fund, and a \$714 million transfer from the General Revenue Fund to the Available School Fund. The detail of interfund activity and transactions by fund type and category as of August 31, 2004 is shown below.

Interfund Receivables/Payables per the Fund Statements

(Amounts in Thousands)

Fund Type	Current		Non-Current	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
Interfund Receivables/Payables Within the Primary Government				
Governmental Funds				
General Fund	\$ 152	\$ 133	\$ 16,102	\$ 2,463
Nonmajor Governmental Funds	112	56	16,102	2,463
	264	189		
Proprietary Funds				
Colleges and Universities				13,639
Nonmajor Enterprise Funds		106	0	13,639
	0	106		
Fiduciary Funds				
Private-Purpose Trust Funds	26	102		
Agency Funds	107		0	0
	133	102		
Total Interfund Receivables/Payables Within the Primary Government	\$ 397	\$ 397	\$ 16,102	\$ 16,102

Due From/Due To per the Fund Statements

(Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
Due From/Due To Within the Primary Government						
Governmental Funds						
General Fund	\$ 111,539	\$ 25	\$ 666,347	\$ 3,692	\$ 1,228	
State Highway Fund	187,375					
Permanent School Fund	38,305					
Nonmajor Governmental Funds	69,687		40,158			
	<u>406,906</u>	<u>0</u>	<u>25</u>	<u>710,197</u>	<u>0</u>	<u>1,228</u>
Proprietary Funds						
Colleges and Universities	390,050			10,415		
Texas Water Development Board Funds				1,547		
Veterans Land Board Loan Program Funds				598		
Texas Department of Transportation Turnpike Authority	2,167					
Nonmajor Enterprise Funds	26,207			17,540		
Internal Service Fund	374		822			
	<u>418,798</u>	<u>0</u>	<u>0</u>	<u>30,922</u>	<u>0</u>	<u>0</u>
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	5,283		88,288			
Private-Purpose Trust Funds	7,836		4,106			
Agency Funds	13,119		5,310			
	<u>13,119</u>	<u>0</u>	<u>0</u>	<u>97,704</u>	<u>0</u>	<u>0</u>
Total Due From/Due To Within the Primary Government	<u>\$ 838,823</u>	<u>\$ 0</u>	<u>\$ 25</u>	<u>\$ 838,823</u>	<u>\$ 0</u>	<u>\$ 1,228</u>
Due From/Due To Outside the Primary Government						
Component Units						
		\$ 1,228			\$ 25	
Total Due From/Due To Outside the Primary Government	<u>\$ 0</u>	<u>\$ 1,228</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25</u>	<u>\$ 0</u>
Total Due From/Due To			<u>\$ 840,076</u>			<u>\$ 840,076</u>

Internal Balances per the Government-Wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
Non-Current Assets			
Internal Balances-Receivables	\$ 13,639	\$ (13,639)	\$ 0
Current Liabilities			
Internal Balances-Payables	\$ 385,359	\$ (385,359)	\$ 0

Transfers In/Out per the Fund Statements

(Amounts in Thousands)

Fund Type	Transfers In	Transfers Out
	Other Funds	Other Funds
Governmental Funds		
General Fund	\$ 1,750,606	\$ 9,598,329
State Highway Fund	2,157,927	85,387
Permanent School Fund	100	951,171
Nonmajor Governmental Funds	3,075,311	1,207,287
	<u>6,983,944</u>	<u>11,842,174</u>
Proprietary Funds		
Colleges and Universities	4,335,568	450,270
Texas Water Development Board Funds	3,131	9,382
Veterans Land Board Loan Program Funds	968	17,899
Texas Department of Transportation Turnpike Authority	39,097	
Nonmajor Enterprise Funds	<u>13,552</u>	<u>1,056,382</u>
	<u>4,392,316</u>	<u>1,533,933</u>
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds*	1,309,150	44,188
Private-Purpose Trust Funds*	736,053	1,168
	<u>2,045,203</u>	<u>45,356</u>
Total Transfers In/Out	<u>\$ 13,421,463</u>	<u>\$ 13,421,463</u>

* The Pension and Private Purpose Trust Fund Operating Transfers In include both the Transfers In of Contributions and the Transfers In line items.

Transfers In/Out per the Government-Wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (2,867,137)
Business-Type Activities	\$ 2,867,137

Note 13

Governmental Fund Balances – Reserved, Unreserved/Designated and Unreserved/Undesignated

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at August 31, 2004. This note only ties to the governmental fund financial statements. The government-wide, proprietary and fiduciary restrictions are listed on the face of their statement of net assets.

Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated

(Amounts in Thousands)

Major Funds

General Fund - Reserved:

Encumbrances	\$ 531,157
Inventories	153,323
Imprest Accounts	3,361
Loans and Contracts	59,875
Non-Current Interfund Receivables	16,102
Non-Current Tax Receivables	395,343
General Government	1,695
Health and Human Services	21,437
Natural Resources and Recreation	3,144
Education	11
	<u><u>\$ 1,185,448</u></u>

General Fund - Unreserved/Undesignated

	<u><u>\$ (1,561,681)</u></u>
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State Highway Fund - Reserved:

Encumbrances	\$ 94,596
Inventories	70,802
Imprest Accounts	417
Loans and Contracts	223,069
	<u><u>\$ 388,884</u></u>

State Highway Fund - Unreserved/Designated:

Transportation	<u><u>\$ 265,023</u></u>
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Permanent School Fund - Reserved:

Encumbrances	\$ 519
Loans and Contracts	4,363
Public School Support	19,896,053
	<u><u>\$ 19,900,935</u></u>

Nonmajor Funds

Special Revenue Funds - Reserved:

Encumbrances	\$ 24,966
Inventories	8,965
Imprest Accounts	67
Loans and Contracts	785,196
	<u><u>\$ 819,194</u></u>

Special Revenue Funds - Unreserved/Designated:

General Government	\$ 397,603
Regulatory Services	48,337
Health and Human Services	9,568
Natural Resources and Recreation	141,263
Education	441,631
Transportation	652
Public Safety and Corrections	5,015
Employee Benefits	264
	<u><u>\$ 1,044,333</u></u>

Debt Service Funds - Reserved:

Debt Service	<u><u>\$ 220,305</u></u>
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Capital Projects Funds - Reserved:

Encumbrances	\$ 65,743
Inventories	804
Public Finance Authority Programs	28,419
	<u><u>\$ 94,966</u></u>

Capital Projects Funds - Unreserved:

Designated:

General Government	\$ 57
Public Safety and Corrections	11,105
Total Unreserved/Designated	<u><u>\$ 11,162</u></u>
	<u><u>\$ 11,162</u></u>

Undesignated:

Health and Human Services	(1,443)
General Government	489
Natural Resources and Recreation	4,873
Total Unreserved/Undesignated	<u><u>\$ 3,919</u></u>
	<u><u>\$ 15,081</u></u>

Permanent Funds - Reserved:

Encumbrances	\$ 115
General Government	425,904
	<u><u>\$ 426,019</u></u>

Permanent Funds - Unreserved:

Designated:	
Permanent Health Fund	<u><u>\$ 477,399</u></u>
Undesignated:	
General Government	14,088
Education	9
Natural Resources and Recreation	315
Total Unreserved/Undesignated	<u><u>\$ 14,412</u></u>
	<u><u>\$ 491,811</u></u>

All Governmental Funds

Reserved	\$ 23,035,751
Unreserved/Designated	<u><u>1,797,917</u></u>
Unreserved/Undesignated	<u><u>(1,543,350)</u></u>
	<u><u>\$ 23,290,318</u></u>

Note 14

Adjustments to Fund Balances/Net Assets

During fiscal year 2004, certain accounting changes and adjustments were made which required the restatement of fund balance or net assets as shown and discussed below.

Restatements to Fund Balance/Net Assets			
(Amounts in Thousands)			
	August 31, 2003, As Previously Reported	Restatements	August 31, 2003, As Restated
Governmental Funds and Government-Wide Activities			
Major Funds:			
General Fund	\$ (1,283,788)	\$ (23,970)	\$ (1,307,758)
State Highway Fund	670,153	(3)	670,150
Permanent School Fund	18,558,596	2,479	18,561,075
Total Major Funds	<u>17,944,961</u>	<u>(21,494)</u>	<u>17,923,467</u>
Nonmajor Funds:			
Special Revenue Funds	1,746,014	15,243	1,761,257
Debt Service Funds	252,369	16,400	268,769
Capital Project Funds	148,557	(10)	148,547
Permanent Funds	836,963		836,963
Total Nonmajor Funds	<u>2,983,903</u>	<u>31,633</u>	<u>3,015,536</u>
Total Governmental Funds	<u>20,928,864</u>	<u>10,139</u>	<u>20,939,003</u>
Governmental Activities:			
Capital Assets Net of Accumulated Depreciation	52,374,079	(33,227)	52,340,852
Long-Term Liabilities	(5,012,204)	651	(5,011,553)
Other Adjustments	1,755,256		1,755,256
Internal Service Fund	25,939		25,939
Total Governmental Activities	<u>49,143,070</u>	<u>(32,576)</u>	<u>49,110,494</u>
Total Governmental Funds and Government-Wide Activities	<u>70,071,934</u>	<u>(22,437)</u>	<u>70,049,497</u>
Proprietary Funds and Business-Type Activities			
Major Funds:			
Colleges and Universities	24,720,571	(53,443)	24,667,128
Texas Water Development Board Funds	1,488,044		1,488,044
Veterans Land Board Loan Program Funds	656,439	(258)	656,181
Texas Department of Transportation Turnpike Authority	142,278		142,278
Nonmajor Enterprise Funds	<u>64,448</u>	<u>(60,941)</u>	<u>3,507</u>
Total Enterprise Funds and Business-Type Activities	<u>27,071,780</u>	<u>(114,642)</u>	<u>26,957,138</u>
Fiduciary Funds			
Pension and Other Employee Benefit Trust Funds	96,082,993		96,082,993
External Investment Trust Funds	11,180,359	(45,232)	11,135,127
Private-Purpose Trust Funds	2,084,604	42,381	2,126,985
Total Fiduciary Funds	<u>109,347,956</u>	<u>(2,851)</u>	<u>109,345,105</u>
Total Primary Government	<u>206,491,670</u>	<u>(139,930)</u>	<u>206,351,740</u>
Discretely Presented Component Units	<u>215,086</u>	<u>(4,095)</u>	<u>210,991</u>
Total Reporting Entity	<u>\$206,706,756</u>	<u>\$ (144,025)</u>	<u>\$206,562,731</u>

Restatements by Activity

(Amounts in Thousands)

Restatements	Governmental Activities	Business-Type Activities	Fiduciary Activities	Component Units	Total Restatements
A.	\$ (8,107)	\$ (53,442)	\$ (3,410)	\$ 2,427	\$ (62,532)
B.	(33,227)	(162)			(33,389)
C.	18,246	(18,246)	559		559
D.		(42,792)		(6,522)	(49,314)
E.	651				651
Total Restatements	<u>\$ (22,437)</u>	<u>\$ (114,642)</u>	<u>\$ (2,851)</u>	<u>\$ (4,095)</u>	<u>\$ (144,025)</u>

- A. These are miscellaneous restatements and other changes necessary to correct for accounting errors in the prior period that resulted in the over or understatement of revenues and/or expenditures
- B. This restatement is for adjusting capital assets and accumulated depreciation.
- C. This restatement is for the restatement of funds from a particular fund type to another. The overall positive balance is due to some agency funds being reclassified to governmental funds.
- D. This restatement recognizes the addition and removal of certain organizations as blended component units as a result of a re-evaluation of GASB Statement No. 14 criteria performed in preparation for the implementation of GASB Statement No. 39 in fiscal year 2004.
- E. This restatement recognizes that a Net Pension Obligation calculation is not applicable for the Fire Fighters' Pension Commission since contributions are received from member fire departments.

Note 15 Contingent Liabilities

The state has been named as a defendant in routine legal proceedings, which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or expenditures. Potential claims have been classified into the following categories to facilitate disclosure.

Protested Tax Payments

As of August 31, 2004, the state held protested tax payments of \$101.623 million, the majority of which were held by the State Comptroller. The taxes included state sales and use tax, franchise tax, insurance premium and maintenance taxes, surtaxes, and various other fees under protest. In addition, plaintiffs have filed lawsuits seeking refunds for franchise, sales, insurance, motor vehicle sales and use, and oil and gas production taxes totaling \$437.345 million. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases with claims totaling \$168.589 million have been filed which may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims that may be significant to individual state agencies. The Texas Department of Transportation faces a potential liability of \$100.201 million from litigation and contractual claims. The Department of Protective and Regulatory Services is potentially impacted from civil rights, discrimination, and tort claims of \$54.924 million.

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds, and from federal drawdowns.

The Texas Water Development Board has loan commitments totaling \$758.299 million as of August 31, 2004.

Federal Assistance

The state also receives federal financial assistance, which is subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the

expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state. The state estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Guaranteed Debt

At August 31, 2004, \$32.098 billion in debt had been guaranteed by the Permanent School Fund for 1,929 outstanding bond issues in 711 school districts in the state. Under state statute, payments by the Permanent School Fund on such guarantees are recoverable from the State of Texas. The \$32 billion represents principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that have been refunded and released from the Bond Guarantee Program.

Partnerships

The University of Texas System has invested in certain limited partnerships. The partnership agreements commit the System to possible future capital contributions amounting to \$932 million as of August 31, 2004. The Teacher Retirement System has \$1.7 billion in remaining commitments for private equity domestic and international partnerships.

Note 16 Subsequent Events

Primary Government

State agencies and universities have issued over \$1.192 billion in new bonds and commercial paper and over \$275 million in refunding bonds since August 31, 2004. This routine activity finances state facilities, housing assistance programs, educational loans, and refunds outstanding debt. Texas Public Finance Authority (TPFA) issued \$207 million in refunding bonds and \$51.4 million in Commercial Paper Notes for various agencies. The total amount of bonds issued also includes the issuance of \$50 million in new bonds, and over \$68 million in refunding bonds by the General Land Office. The Texas Department of Housing and Community Affairs issued \$189 million in single-family revenue bonds on October 28, 2004. In September 2004, the Texas Workforce Commission determined that sufficient balances existed in the Obligation Assessment Fund to enable the redemption of various bonds that reduced the C & D series principal outstanding from \$600 million to \$526.8 million.

On September 1, 2004, the Texas A&M University System (A&M) issued \$79.7 million in Permanent University Fund (PUF) Bonds, Series 2004, to refund outstanding PUF Flexible Rate Notes, which provided funds for construction and other capital improvements, and to pay the costs of issuing bonds. A&M intends to issue up to \$50 million in Revenue Financing System Commercial Paper Notes, Series B, and \$10 million of PUF Flexible Rate Notes during fiscal year 2005. In addition, during fiscal year 2005, A&M intends to issue between \$100-\$200 million in Revenue Financing System Bonds to refund outstanding commercial paper and bonds, and to pay the costs of issuing the bonds. On November 12, 2004, the University of Texas System (UT) issued Revenue Financing System Bonds, totaling more than \$570 million. The purpose of these bonds was to refund outstanding Revenue Financing Commercial Paper Notes, Series A, provide new money for construction projects, and to pay costs related to the issuance of the bonds. UT also issued \$8.6 million in Revenue Financing System Taxable Commercial Paper Notes on September 1, 2004, to finance the costs of campus improvements as well as \$125

million in PUF Flexible Rate Notes, Series A, on February 3, 2005. On November 18, 2004, Texas State University System issued \$92.3 million in bonds for construction at Lamar University and Sul Ross University, for refunding certain outstanding bonds, as well as to pay costs related to the issuance of the bonds. Midwestern State University issued \$11.1 million in Constitutional Appropriation Bonds, Series 2004, on September 1, 2004, to construct a Business Administration classroom for use by students of the University. It is anticipated that the University of North Texas System will issue tuition revenue bonds in the amount of \$25.5 million to fund the construction of the facilities at the University of North Texas at Dallas.

House Bill (H.B.) 2292, 78th Legislature, mandated the consolidation of the Texas Commission for the Blind, Texas Commission for the Deaf and Hard of Hearing, Interagency Council on Early Childhood Intervention, and the Texas Rehabilitation Commission into the Texas Department of Assistive and Rehabilitative Services (DARS). H.B. 2292 also mandated that the Texas Department of Health, Texas Commission on Alcohol and Drug Abuse, and the mental health programs of the Texas Department of Mental Health and Mental Retardation (MHMR) be consolidated to form the Texas Department of State Health Services (DSHS). The mental retardation programs of MHMR were consolidated with the Texas Department of Human Services and the Texas Department of Aging to form the Texas Department of Aging and Disabilities Services (DADS). The new agencies that were created commenced financial operations on September 1, 2004.

Component Unit

The Texas State Affordable Housing Corporation issued over \$14.3 million in multi-family bonds on January 7, 2005. The proceeds of the bond will be used for the acquisition, construction and equipment of a new 250-unit multi-family affordable housing development to be located in San Antonio. At least 40 percent of the units in the project are to be affordable to individuals and families with incomes at or below 60 percent of the Area Median Family Income, adjusted for family size.

Note 17

Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

The Texas Employees Group Benefits Program (GBP), formerly known as the Texas Employees Uniform Group Insurance Program (UGIP), provides health, life, accidental death and dismemberment (AD&D), disability, and dental insurance coverage to state and higher education employees, retirees, and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, and health maintenance organization (HMO) contracts. Effective September 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan, HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas, Inc.

The administrative contract involves no transfer of risk to the administrator. The state's Group Insurance Fund retains all risk under HealthSelect. The GBP also includes HMOs to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMOs. The state retains no risk beyond the payment of premiums. The life, AD&D, and disability insurance coverages are administered by Group Life and Health (the carrier), a division of Fort Dearborn Life Insurance Company. The carrier, not the fund, is liable in the event claims exceed the claims portion of premium. The AD&D insurance is fully

insured. The ERS approved two dental plans for fiscal year 2004, a dental health maintenance organization (DHMO) administered by Aetna Dental, Inc. and a dental indemnity plan administered by the Government Employees Hospital Association (GEHA). The DHMO is fully insured with all risk transferred to Aetna Dental, Inc. Beginning September 1, 1997, the dental indemnity plan became self-funded by ERS with all risk retained by the Group Insurance Fund.

The 77th Texas Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a new statewide health coverage program for public school employees and their dependents. The Teacher Retirement System administers this program. Enrollment commenced in September 2002. The new plan took effect September 1, 2002 and includes employees of most small to mid-size districts, charter schools, education service centers, and certain other employers.

A number of state universities have self-insurance plans providing various coverages in the areas of workers' compensation, unemployment compensation, employee health, and medical malpractice on a funded or pay-as-you-go basis. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported) but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends, and any other factors that would modify past experience. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liability reported in various balance sheet/statement of net assets liability accounts for the General Fund government-wide governmental activities, Enterprise Funds, Internal

Service Fund, and Colleges and Universities during fiscal years ending August 31, 2003 and August 31, 2004.

Note 18 Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectibility of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of August 31, 2004, the redetermination hearings process had an estimated amount of \$390 million.

Note 19 Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entities financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. However, most component units are discretely presented. None of the component units for the State of Texas meet the criteria for major component unit presentation and those presented are for information purposes of interested parties. The component units are reported for the year ended August 31, 2004 unless indicated otherwise. There are no material blended component units of the state.

Changes in Claims Liability Balances

(Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
2004	\$2,696,561	\$1,863,201	\$1,744,384	\$2,815,378
2003	\$2,218,184	\$2,280,225	\$1,801,848	\$2,696,561

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost entirely to the state. The component unit's financial data is discretely presented in the Component Units column of the state's financial statements.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The State of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2004. Separate financial statements may be obtained by contacting the State Bar of Texas at P.O. Box 12487, Austin, Texas 78711.

Texas Agricultural Finance Authority (Authority) is a legally separate entity within the Texas Department of Agriculture (TDA) and is financially accountable to the state. The Governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The Commissioner of TDA administers the Authority with the assistance of the board. The Authority was created to provide financial assistance for the expansion, development, and diversification of agricultural businesses. The Authority primarily benefits the citizens of Texas. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas On-Site Wastewater Treatment Research Council (Council) awards competitive grants and contracts to support applied research, demonstration projects, and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the State of Texas. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the Texas Commission on Environmental Quality's combined financial statements.

Texas Appraiser Licensing and Certification Board (TALCB) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The

Governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in presentation of incomplete financial statements. TALCB serves the real estate community in Texas. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. (Foundation) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Foundation is a direct-support organization of the prepaid tuition program and is authorized by Section 54-633 of the Texas Education Code. The Foundation is governed by a board composed of the Comptroller of Public Accounts, a member appointed by the Governor with the advice and consent of the Senate, and three members appointed jointly by the Comptroller and the member who is appointed by the Governor. Separate financial statements may be obtained by contacting the State Comptroller of Public Accounts, Texas Tomorrow Fund at 111 E. 17th Street, Austin, Texas 78774.

Texas Guaranteed Student Loan Corporation (Corporation) is a public non-profit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The State of Texas is financially accountable for the Corporation through board appointment and imposition of will. All members of the Corporation's board are appointed by the Governor with the advice and consent of the Senate. The Corporation's liabilities are not debts of the state. The Corporation received a one-time appropriation of \$1.5 million to fund initial startup operations. The Corporation is reported for the year ended September 30, 2004. Separate financial statements may be obtained by contacting the Texas Guaranteed Student Loan Corporation at P.O. Box 201725, Austin, Texas 78720-1725.

Texas Boll Weevil Eradication Foundation, Inc. (Foundation) was created by Senate Bill 30, 73rd Legislature, 1993 (now codified at Texas Agriculture Code, Chapter 74, Subchapter D). The Foundation establishes and implements a boll weevil eradication program for Texas. It is a legally separate entity, fiscally dependent on the Texas

Department of Agriculture (TDA), and governed by sixteen board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees, and debt. The Foundation is reported for the year ended December 31, 2003. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (Authority) was created by the Texas Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Financial statements may be obtained by contacting the TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Small Business Industrial Development Corporation (TSBIDC) was chartered in 1983 under the Development Corporation Act of 1979 to promote economic development in the State of Texas. The Office of the Governor is the oversight agency for the TSBIDC and is its reporting entity. The board of directors is appointed by the Governor. The Corporation's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Economic Development Corporation (TEDC), a non-profit corporation, was created in 1991 under the provisions Texas Non-Profit Corporation Act to assist, promote, develop, and advance economic development in the State of Texas. The Office of the Governor is the oversight agency for the TEDC and is its reporting entity. The board of directors is appointed by the Governor. The entity's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

U.T. Southwestern Moncrief Cancer Center (Center) is a non-profit corporation governed by a three-member board appointed by the President of the University of Texas Southwestern Medical Center. The Center exists for charitable, educational, and scientific purposes, and provides

radiation oncology treatment services at three facilities. The University of Texas System may establish, own and operate one or more cancer therapy centers, or enter into arrangements with other providers of cancer care. Separate financial statements may be obtained by contacting the Center at 1450 Eighth Avenue, Fort Worth, Texas 76104.

Texas Universities Health Plan, Inc. (TUHP) is governed by a body appointed by the University of Texas System. TUHP is a non-profit corporation organized and administered for the purpose of assisting and acting on behalf of the University of Texas System in establishing and operating a health maintenance organization. TUHP was dissolved on December 30, 2003. TUHP is reported for the year ended December 31, 2003. Separate financial statements may be obtained by contacting TUHP's administrative office at 701 Brazos Street, Suite 500, Austin, Texas 78701.

Surplus Lines Stamping Office of Texas (Office) is a non-profit corporation created by the Texas Legislature to assist the Texas Department of Insurance (TDI) in the regulation of surplus lines insurance. TDI's Commissioner appoints the board. The Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Office. TDI sets the fee amount to be assessed to the agents. The Office is reported for the year ended December 31, 2003. Separate financial statements may be obtained at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System reinsurance risks covered under the health benefit plans of small employers' insurance carriers. TDI's Commissioner appoints the nine-member board. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Risk Pool provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. The TDI approves all rates and rate schedules before they are used. The board of directors, composed of nine members, is appointed by TDI's Commissioner. Financial statements may be obtained at 2512 South IH 35, Suite 110, Austin, Texas 78704.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Non-Profit

Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans who are not afforded housing finance options through conventional lending channels, professional educators, and fire-fighters and police officers who are first-time home buyers. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Although a separate entity from the state, there is a statutory link between the state and TSAHC as it issues bonds. Because of this link, TSAHC is included in the state's CAFR as a discretely presented component unit. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, however, the state is not financially accountable for the entity.

Life, Accident, Health, and Hospital Service Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident, and health insurance policies and annuity contracts because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's Commissioner appoints a board of directors of the Association consisting of nine members.

Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims", as defined in Article 9.48 of the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's Commissioner.

Texas Mutual Insurance Company (Texas Mutual) was created by House Bill 3458. It was previously known as the Texas Workers' Compensation Insurance Fund and reported as a discretely presented component unit. Texas Mutual operates as a domestic mutual insurance company providing workers' compensation insurance in the State of Texas, and also serves as the insurer of last resort. It is legal-

ly separate and fiscally independent of the state, but the state appoints a voting majority of the Texas Mutual's board.

Beacon State Fund was created to assist the Women's Commission in promoting issues that affect the women of Texas through the distribution of information, media events and community outreach programs to increase public awareness. The Office of the Governor appoints a voting majority of the board.

Heep Foundation is a not-for-profit corporation established to receive and administer funds for educational purposes, in support of and for the benefit of Texas A&M University, Texas Agricultural Experiment Station, Texas Cooperative Extension, Texas Engineering Experiment Station and Texas Engineering Extension Service. All gifts received by the corporation are placed into its permanent endowment fund.

Helm Estate consists of investments which provide investment income. Net income is distributed according to the instructions contained in the last will and testament. The A&M System Board serves as Executor of the Estate of Ardella Helm. The three beneficiaries are institutions of higher education, one of which is Texas A&M University, and distributions are to be used for the award of scholarships.

Midwestern State University Charitable Trust is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a five-member Board of Trustees. This Board appoints individuals to fill vacancies on the Board as they occur.

River Authorities are political subdivisions that are created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Texas Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of its rivers and streams, for irrigation, power and all other useful purposes, the reclamation and irrigation of its arid, semiarid and other lands needing irrigation, the reclamation of drainage of its overflowed lands, and other lands needing drainage, the conservation and development of its forests, water and hydro-electric power, the navigation of its inland

and coastal waters, and the preservation and conservation of all such natural resources of the state (Texas Constitution, Article XVI, Section 59). Although there are seventeen river/water authorities, the State of Texas has voting majority for the following fourteen:

- Angelina-Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe Blanco River Authority
- Lavaca Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

Note 20 Deficit Fund Balance/Net Assets

A. Primary Government

Governmental Funds

The following governmental fund reported a deficit fund balance that is primarily due to a timing difference in posting liability accruals and the corresponding asset.

Major Governmental Funds:

- The General Fund reported a deficit of \$376.2 million.

Proprietary Funds

The Texas Prepaid Higher Education Tuition Board, a nonmajor enterprise fund, reported a deficit of \$222.9 million. This deficit was caused by tuition increases at Texas public senior colleges for the last three academic years. Both the actuary and the investment counsel agree that given the long-term nature of the program, this unfunded liability should be eliminated in the future as investment earnings improve and tuition increases moderate.

B. Discretely Presented Component Units

The Texas Boll Weevil Eradication Foundation, Inc., a component unit of the Texas Department of Agriculture (TDA), reported a deficit Unrestricted Net Assets of \$85.2 million. This is a result of incurring debt during the early years of the eradication program which resulted in a decrease in unrestricted net assets on the statement of revenue, expenses, and change in net assets and an unrestricted deficit on the statement of net assets. Although this “loss” was incurred during the initial operations of the program, management expects the increase in net assets in later years to offset this loss.

The Texas Agricultural Finance Authority (TAFA), a component unit created within the TDA, reported a deficit Unrestricted Net Assets of \$1.8 million. This results from an allowance for uncollectible accounts in prior years in the TAFA loan program. To reduce the risk of future allowances, the board has made lending criteria more stringent and will strictly adhere to the established policies and procedures. The 76th Legislature adopted legislation that allows a larger pool of eligible borrowers to the financial assistance program. With the current performing commitments and the approved expansion, the program has the ability to provide the earnings for future uncollectible allowances, and offset the current deficit in the loan program.

Note 21 Tobacco Settlement

The State of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15 billion over the first 25 years of the agreement. The actual amounts of the annual payments are subject to adjustments for domestic tobacco sales, inflation and any other court-ordered factors, however, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped (sales). Since annual payments are based on cigarette sales from the preceding calendar year, a net revenue accrual of \$7,776,424 was made on

sales calculated from January 1 to the end of the fiscal year. Tobacco settlement revenues received in fiscal year 2003 were \$536,313,900 and \$489,423,790 in fiscal year 2004. Cumulative actual tobacco settlement revenues as of fiscal year 2004 were \$3,290,904,410.

Note 22 Donor-Restricted Endowments

The State of Texas has donor-restricted endowments with net appreciation of \$122.7 million on investments which are available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported in net assets can be found in the Donor-Restricted Endowments schedule below. True endowments are those funds that must be maintained inviolate and in perpetuity. Term endowments are similar to true endowments except that, upon the passage of a stated period of time, the principal may be expended. Expendable funds are those funds that may be expended for either a stated purpose (restricted) or for a general purpose (unrestricted) as per the endowment gift terms. Non-expendable funds may not be expended. The policies of each individual state agency govern the authorizing and spending of net appreciation on investments; there is no state law that governs endowment spending. Most state agencies have a target distribution rate per unit of spendable income between 3 to 6 percent of the average market value of the endowment fund for the preceding 12 quarters.

Donor-Restricted Endowments

(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation*	Reported in Net Assets
True Endowments	\$ 50,912	Restricted for Nonexpendable
True Endowments	71,819	Restricted for Expendable
Term Endowments	22	Restricted for Nonexpendable
Term Endowments	18	Restricted for Expendable
	<u>\$122,771</u>	

* There was a negative fair value adjustment totaling (\$23) included in the figures above for Fiscal Year 2004.

Note 23 Extraordinary Items

The state reports a net extraordinary loss of \$13.4 million in the current fiscal year. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

The University of Texas System, presented in the Colleges and Universities, a major Enterprise Fund, reports a net extraordinary loss of \$296 thousand that were incurred as a result of fire damage to the Central Utility Plant at UT Arlington.

The University of Texas System also reports a net extraordinary loss of \$13.1 million as a result of the continued reimbursement of cost associated with damages sustained during Tropical Storm Allison in June 2001. These net losses consist of extraordinary gains of \$244 thousand and extraordinary losses of \$13.3 million during fiscal year 2004. Receipts have been realized from commercial insurance coverage and from the United States Federal Emergency Management Agency (FEMA). U.T. Health Science Center at Houston anticipates receiving a final insurance payment of \$225 thousand, and a final FEMA payment of approximately \$22 million in fiscal year 2005.

Note 24 Taxes Receivable

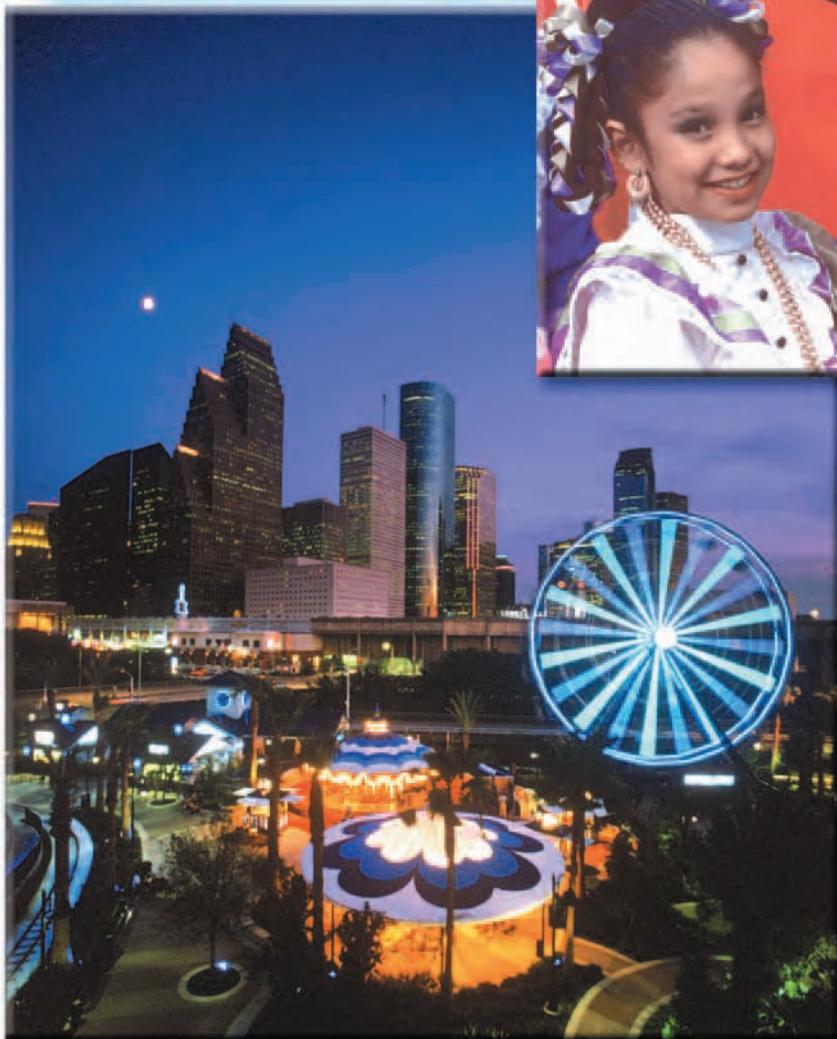
Taxes receivable represent amounts due to the state at August 31, 2004 for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "non-current". The receivables have been recorded net of allowances for uncollectible accounts. Revenue is recorded on the governmental fund financial statements using the modified accrual basis of accounting for amounts due to the State of Texas at August 31, 2004 that are considered "available" (e.g. received by the state within approximately 60 days after that date). Revenue earned but not "available" at August 31, 2004 is recorded as deferred revenue. Prepaid taxes are also recorded as deferred revenue.

On the government-wide financial statements a corresponding amount is recorded as revenue using the accrual basis of accounting, which includes revenue earned at fiscal year end regardless of its availability. Deferred revenue includes only the prepaid taxes that have not been earned by fiscal year end. Taxes receivable are the same for both modified and full accrual bases.

Taxes Receivable, as reported in the General Fund Balance Sheet – Governmental Funds, are detailed by tax type as follows.

Taxes Receivable by Tax Type	
August 31, 2004 (Amounts in Thousands)	
Tax Type	Net Taxes Receivable
Sales and Use Tax	\$1,204,698
Motor Vehicle and Manufactured Housing	53,995
Motor Fuels	105,716
Franchise	278,174
Oil and Natural Gas Production	168,096
Insurance Occupation	87,078
Cigarette and Tobacco	10,318
Other	166,117
Total Net Taxes Receivable	<u>\$2,074,192</u>
 As Reported on the Financial Statements	
Current Taxes Receivable	\$1,678,849
Non-Current Taxes Receivable	395,343
Total Net Taxes Receivable	<u>\$2,074,192</u>

Required Supplementary Information Other than MD&A



*Kids in Houston
dressed for the
traditional Ballet
Folklorico.*

*Having fun at Houston's
Downtown Aquarium.*

State of Texas
Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final to Actual Variance
	Original	Final	Budgetary Basis	
REVENUES				
Taxes	\$25,911,324	\$26,221,448	\$27,770,627	\$ 1,549,179
Federal	17,877,709	19,662,905	18,196,465	(1,466,440)
Licenses, Fees, and Permits	1,875,364	2,190,724	1,887,552	(303,172)
Interest and Other Investment Income	138,260	201,870	237,098	35,228
Land Income	5,857	6,023	9,964	3,941
Settlement of Claims	507,299	495,377	517,038	21,661
Sales of Goods and Services	703,767	785,211	837,258	52,047
Other	2,107,406	2,639,130	1,729,417	(909,713)
Total Revenues	<u>49,126,986</u>	<u>52,202,688</u>	<u>51,185,419</u>	<u>(1,017,269)</u>
EXPENDITURES				
General Government	2,837,594	3,151,344	1,808,826	1,342,518
Education	15,026,124	15,291,098	13,617,240	1,673,858
Employee Benefits	992	1,050	662	388
Health and Human Services	21,301,655	23,141,314	21,920,653	1,220,661
Public Safety and Corrections	3,326,723	3,516,997	3,374,228	142,769
Transportation	1,700	1,918	6,049	(4,131)
Natural Resources and Recreation	820,623	952,580	816,770	135,810
Regulatory Services	263,952	275,273	265,913	9,360
Total Expenditures	<u>43,579,363</u>	<u>46,331,574</u>	<u>41,810,341</u>	<u>4,521,233</u>
Excess of Revenues				
Over Expenditures	<u>5,547,623</u>	<u>5,871,114</u>	<u>9,375,078</u>	<u>3,503,964</u>
Other Financing Sources (Uses)				
Transfer In	2,099,121	2,362,652	1,750,606	(612,046)
Transfer Out	(7,761,397)	(7,940,098)	(9,598,329)	(1,658,231)
Sale of Capital Assets	2,329	10,403	43,108	32,705
Available Beginning Balances	18,285	18,285	18,285	
Total Other Financing Sources (Uses)	<u>(5,641,662)</u>	<u>(5,548,758)</u>	<u>(7,786,330)</u>	<u>(2,237,572)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ (94,039)</u>	<u>\$ 322,356</u>	<u>\$ 1,588,748</u>	<u>\$ 1,266,392</u>

State of Texas
Budgetary Comparison Schedule
Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts		Final to Actual Variance
	Original	Final	Budgetary Basis		
REVENUES					
Taxes	\$ 31,735	\$ 31,735	\$ 31,735		\$ 313,839
Federal	2,548,235	2,524,488	2,838,327		21,035
Licenses, Fees, and Permits	810,658	859,195	880,230		(2,408)
Interest and Other Investment Income	16,652	16,652	14,244		(2,534)
Land Income	4,651	4,651	2,117		(961)
Settlement of Claims	6,796	7,067	6,106		(16,191)
Sales of Goods and Services	174,217	191,603	175,412		(14,818)
Other	15,400	18,931	4,113		
Total Revenues	<u>3,608,344</u>	<u>3,654,322</u>	<u>3,952,284</u>		<u>297,962</u>
EXPENDITURES					
General Government	10,683	12,135	10,589		1,546
Public Safety and Corrections	441,289	502,737	484,087		18,650
Transportation	5,437,521	5,891,205	5,533,596		357,609
Total Expenditures	<u>5,889,493</u>	<u>6,406,077</u>	<u>6,028,272</u>		<u>377,805</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,281,149)</u>	<u>(2,751,755)</u>	<u>(2,075,988)</u>		<u>675,767</u>
Other Financing Sources (Uses)					
Transfer In	2,100,189	2,109,007	2,157,927		48,920
Transfer Out			(85,387)		(85,387)
Sale of Capital Assets	8,891	8,900	6,459		(2,441)
Available Beginning Balances	757,693	757,693	757,693		
Total Other Financing Sources (Uses)	<u>2,866,773</u>	<u>2,875,600</u>	<u>2,836,692</u>		<u>(38,908)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>\$ 585,624</u>	<u>\$ 123,845</u>	<u>\$ 760,704</u>		<u>\$ 636,859</u>

Note to Required Supplementary Information – Budgetary Comparison Schedule

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of these differences is required and is presented below.

Reconciliation of Budgetary Basis to GAAP Basis		
August 31, 2004 (Amounts in Thousands)		
	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$ 1,588,748	\$ 760,704
Basis of Accounting Differences:		
Receivables and Deferred Revenues	586,992	39,305
Payables	(1,083,240)	(58,559)
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Source	(18,285)	(757,693)
Federal Program Revenues Not Budgeted	(2,794,533)	
Federal Program Expenditures Not Budgeted	2,794,533	
Other Revenues Not Budgeted	112,080	
Other Expenditures Not Budgeted	(254,970)	
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	200	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses – GAAP Basis	<u>\$ 931,525</u>	<u>\$ (16,243)</u>

The major reconciling items between the Budgetary Comparison Schedule Actual and the GAAP Financial Statements are due to the following items.

Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the Budgetary Comparison Schedule but are reported on the modified accrual basis on the GAAP

Financial Statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

Perspective Differences

Certain revenues and expenditures, including debt service, the Federal Food Stamps Program and the Disproportionate Share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs has been excluded from the Budgetary Comparison Schedule.

The beginning cash balances are included as Other Financing Sources in the Budgetary Comparison Schedule. The beginning fund balances are not included as Financing Sources on the GAAP Financial Statements.

Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the Budgetary Comparison Schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

- General Fund – The variance of \$4 million in Transportation is due to a net increase in expenditures of over \$4 million from the omission of expenditure accruals in the prior year and inclusion this year when presenting data on a budgetary basis of accounting.
- Other Nonmajor Funds – A significant variance of \$833 million is the result of a change of funding from revenues to operating transfers in the Available School Fund.

Modified Approach to Reporting Infrastructure Assets

As permitted by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the state has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the state has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10% of the Interstate system and 5% of the Non-Interstate system (US, State, and FM roadways). For each section of highway observed, twenty-one elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall

condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20%, 2=40%, 3=60%, 4=80%, 5=100%).

Assessed Conditions

The Texas Highway Commission has adopted a minimum condition level of 80% for the Interstate system and 75% for the Non-Interstate system.

For the current year and three prior years, the results of the condition assessments are as follows.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)
2004	82.3%	79.1%
2003	81.3%	78.5%
2002	82.5%	78.7%
2001	85.0%	78.3%

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures. Since GASB 34 only became effective for fiscal year 2002, estimates prior to 2002 are not available. However, the actual maintenance expenditures are presented for comparison.

Maintenance Cost

(Amounts in Thousands)

	2004	2003	2002	2001
Interstate Highways				
Estimate	\$ 400,000	\$ 400,000	\$ 210,000	N/A
Actual	\$ 383,933	\$ 330,766	\$ 386,032	\$ 283,502
Other Highways				
Estimate	\$1,450,000	\$1,450,000	\$1,444,000	N/A
Actual	\$1,378,863	\$1,483,210	\$1,489,744	\$1,292,071

Factors Affecting Condition Assessments

Although TxDOT has adopted condition levels for the highway system, this process is relatively new and represents a different approach to maintaining the highway system. (As time progresses, TxDOT hopes to achieve a greater

correlation between the estimated and actual maintenance expenditures needed to maintain the highway system at or above the adopted condition levels.)

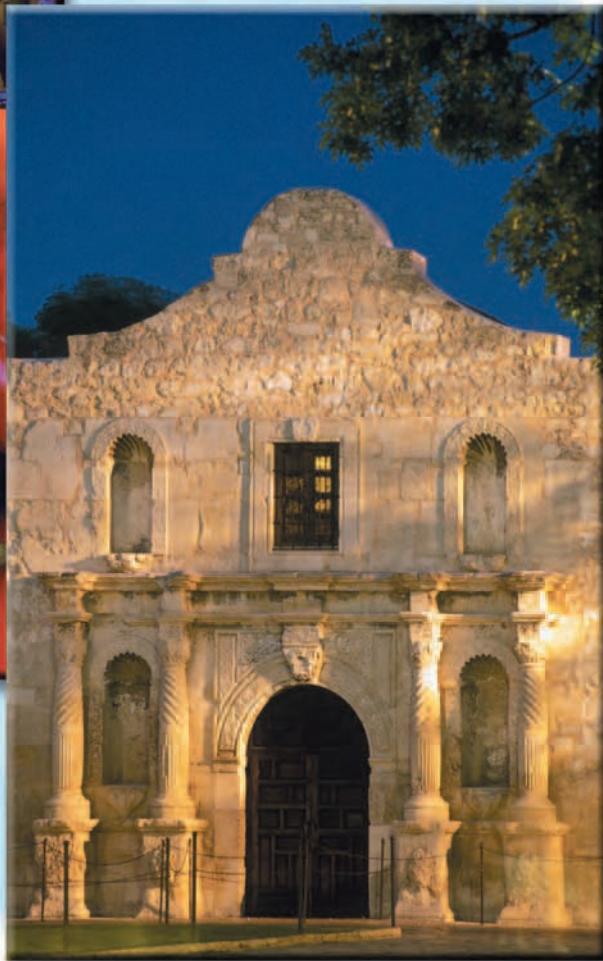
In reviewing the condition assessments, it is also necessary to consider the effects of other factors such as increases

in traffic, legislative mandates, and environmental effects (rainfall, drought, freeze, thaw, etc.) which may have a major impact on needed funds and the condition of Texas roads.

Other Supplementary Information



Texas peppers!

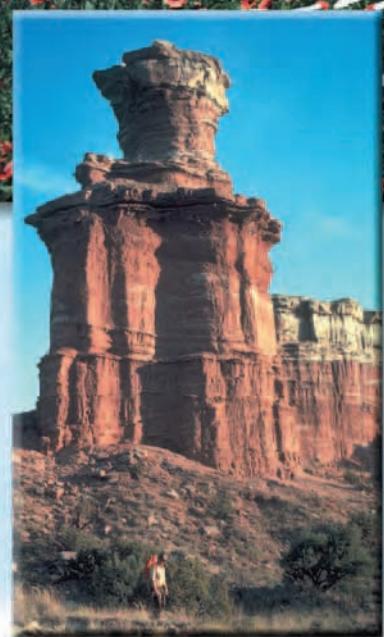


The Alamo, in San Antonio

Combining Financial Statements



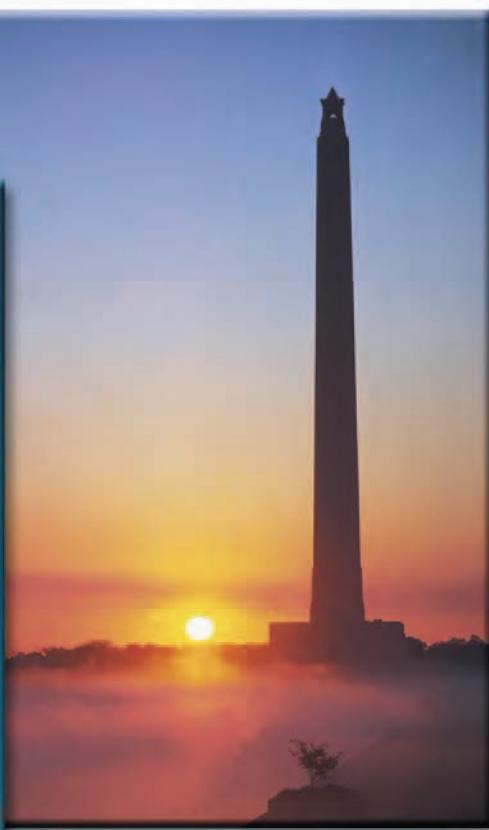
The wildflowers of Texas



Palo Duro Canyon State Park

Governmental Funds

*The Old Depot
Museum in Burton.*



*The 570-foot San Jacinto
Monument near Houston
marks the site of the
final battle for Texas
Independence.*

State of Texas

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2004 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 656,908	\$ 9,394	\$ 100,151	\$ 876	\$ 767,329
Securities Lending Collateral				77,819	77,819
Investments	39,725	1,970	13,529	13,288	68,512
Restricted:					
Cash and Cash Equivalents	228,454	140,484			368,938
Loans and Contracts	79,987				79,987
Receivables:					
Federal	871	243	446		1,560
Accounts	12,885		863	30	13,778
Interest and Dividends	21,054	892	11	2,576	24,533
Investment Trades				1,802	1,802
Other	682				682
Due From Other Funds	64,763	17	4,907		69,687
Interfund Receivable	102		10		112
Inventories	8,965		804		9,769
Loans and Contracts	2,850				2,850
Other Current Assets	2,241				2,241
Total Current Assets	<u>1,119,487</u>	<u>153,000</u>	<u>120,721</u>	<u>96,391</u>	<u>1,489,599</u>
Non-Current Assets:					
Investments	4,146	67,305		904,741	976,192
Receivables:					
Other	22				22
Restricted:					
Investments	3,100				3,100
Receivables	1				1
Loans and Contracts	533,467				533,467
Other Assets	127,619				127,619
Loans and Contracts	168,892				168,892
Other Non-Current Assets	8,008				8,008
Total Non-Current Assets	<u>845,255</u>	<u>67,305</u>	<u>0</u>	<u>904,741</u>	<u>1,817,301</u>
Total Assets	<u>\$1,964,742</u>	<u>\$ 220,305</u>	<u>\$ 120,721</u>	<u>\$1,001,132</u>	<u>\$3,306,900</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables:					
Accounts	\$ 51,253	\$	\$ 7,650	\$ 600	\$ 59,503
Payroll	6,385		169		6,554
Federal	87				87
Investment Trades				4,883	4,883
Other	2,318		469		2,787
Deferred Revenues	701		180		881
Due To Other Funds	39,906		252		40,158
Interfund Payable	36		20		56
Obligations/ Securities Lending				77,819	77,819
Total Current Liabilities	<u>100,686</u>	<u>0</u>	<u>8,740</u>	<u>83,302</u>	<u>192,728</u>
Non-Current Liabilities:					
Interfund Payable	529		1,934		2,463
Total Non-Current Liabilities	<u>529</u>	<u>0</u>	<u>1,934</u>	<u>0</u>	<u>2,463</u>
Total Liabilities	<u>101,215</u>	<u>0</u>	<u>10,674</u>	<u>83,302</u>	<u>195,191</u>
Fund Balances:					
Reserved	819,194	220,305	94,966	426,019	1,560,484
Unreserved	1,044,333		15,081	491,811	1,551,225
Total Fund Balances	<u>1,863,527</u>	<u>220,305</u>	<u>110,047</u>	<u>917,830</u>	<u>3,111,709</u>
Total Liabilities and Fund Balances	<u>\$1,964,742</u>	<u>\$ 220,305</u>	<u>\$ 120,721</u>	<u>\$1,001,132</u>	<u>\$3,306,900</u>

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Governmental Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Federal Licenses, Fees, and Permits	\$ 27,057	\$ 1,861	\$ 15,432	\$	\$ 44,350
	226,546				226,546
Interest and Other Investment Income	41,544	12,162	2,159	106,873	162,738
Land Income	155,178			11	155,189
Sales of Goods and Services	2,498		4,304		6,802
Other	55,894		6	18	55,918
Total Revenues	<u>508,717</u>	<u>14,023</u>	<u>21,901</u>	<u>106,902</u>	<u>651,543</u>
EXPENDITURES					
Current:					
General Government	275,272	51	3,040	4,808	283,171
Education	1,458,413	283	73		1,458,769
Employee Benefits	11,737				11,737
Health and Human Services	17,837		8,781		26,618
Public Safety and Corrections	67,065		12,596		79,661
Transportation	1,919		10,741		12,660
Natural Resources and Recreation	47,087		2,760	42	49,889
Regulatory Services	109,533				109,533
Capital Outlay	4,515		72,731	9	77,255
Debt Service:					
Principal	789	206,189			206,978
Interest		183,845			183,845
Total Expenditures	<u>1,994,167</u>	<u>390,368</u>	<u>110,722</u>	<u>4,859</u>	<u>2,500,116</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,485,450)</u>	<u>(376,345)</u>	<u>(88,821)</u>	<u>102,043</u>	<u>(1,848,573)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	2,586,573	487,089	799	850	3,075,311
Transfer Out	(1,081,758)	(90,111)	(13,392)	(22,026)	(1,207,287)
Bonds and Notes Issued	24,436	68	62,914		87,418
Bonds Issued for Refunding	58,083				58,083
Payments to Escrow for Refunded Bonds		(69,165)			(69,165)
Sale of Capital Assets	386				386
Total Other Financing Sources (Uses)	<u>1,587,720</u>	<u>327,881</u>	<u>50,321</u>	<u>(21,176)</u>	<u>1,944,746</u>
Net Change in Fund Balances	<u>102,270</u>	<u>(48,464)</u>	<u>(38,500)</u>	<u>80,867</u>	<u>96,173</u>
Fund Balances, September 1, 2003	1,746,014	252,369	148,557	836,963	2,983,903
Restatements	15,243	16,400	(10)		31,633
Fund Balances, September 1, 2003, as Restated	<u>1,761,257</u>	<u>268,769</u>	<u>148,547</u>	<u>836,963</u>	<u>3,015,536</u>
Fund Balances, August 31, 2004	<u>\$1,863,527</u>	<u>\$ 220,305</u>	<u>\$ 110,047</u>	<u>\$ 917,830</u>	<u>\$3,111,709</u>

Nonmajor Special Revenue Funds

The **Economic Stabilization Fund** receives one-half of any unencumbered positive balance in the General Revenue Fund on the last day of the preceding biennium and an amount equal to 75 percent of excess of oil and gas production taxes received greater than the excess of oil and gas production taxes received in fiscal year 1987 and any other money appropriated to the fund by the Legislature. The fund may be used to eliminate temporary cash deficiency in the General Revenue Fund, or may be appropriated for any purpose by two-thirds vote of the Legislature.

The **Student Loan Funds** receive proceeds from the issuance of bonds that are used to make loans to qualifying students who have been admitted to attend any institution of higher education within the State of Texas.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development Bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a non-bypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers, customer education and school funding loss mechanism.

The **State Text Book Fund** receives money from the Available School Fund for the purpose of providing free textbooks to children attending public schools.

State of Texas

Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2004 (Amounts in Thousands)

	Economic Stabilization Fund	Student Loan Funds	Water Development Funds	System Benefit Fund*	State Text Book Fund	Other Nonmajor Special Revenue Funds**	Totals
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$ 365,569	\$	\$ 92,797	\$ 39,224	\$ 35,933	\$ 123,385	\$ 656,908
Investments						39,725	39,725
Restricted:							
Cash and Cash Equivalents		226,082				2,372	228,454
Loans and Contracts		79,986				1	79,987
Receivables:							
Federal Accounts		239				632	871
Interest and Dividends	448	19,617	742		9	12,876	12,885
Other						214	21,054
Due From Other Funds		877				682	682
Interfund Receivable						63,886	64,763
Inventories						102	102
Loans and Contracts			1,525			8,965	8,965
Other Current Assets						1,325	2,850
Total Current Assets	<u>366,017</u>	<u>326,801</u>	<u>95,064</u>	<u>39,224</u>	<u>35,975</u>	<u>256,406</u>	<u>1,119,487</u>
Non-Current Assets:							
Investments						4,146	4,146
Receivables:							
Other						22	22
Restricted:							
Investments						3,100	3,100
Receivables		1					1
Loans and Contracts		533,466				1	533,467
Other Assets		127,619					127,619
Loans and Contracts			151,639			17,253	168,892
Other Non-Current Assets						8,008	8,008
Total Non-Current Assets	<u>0</u>	<u>661,086</u>	<u>151,639</u>	<u>0</u>	<u>0</u>	<u>32,530</u>	<u>845,255</u>
Total Assets	<u>\$ 366,017</u>	<u>\$ 987,887</u>	<u>\$ 246,703</u>	<u>\$ 39,224</u>	<u>\$ 35,975</u>	<u>\$ 288,936</u>	<u>\$ 1,964,742</u>

Concluded on the following page

State of Texas
Combining Balance Sheet – Nonmajor Special Revenue Funds (concluded)

August 31, 2004 (Amounts in Thousands)

	Economic Stabilization Fund	Student Loan Funds	Water Development Funds	System Benefit Fund*	State Text Book Fund	Other Nonmajor Special Revenue Funds**	Totals
LIABILITIES AND FUND BALANCES							
Liabilities:							
Current Liabilities:							
Payables:							
Accounts	\$	\$	160	\$	18	\$	51,253
Payroll						4	6,385
Federal				87			87
Other						2,318	2,318
Deferred Revenues					9	692	701
Due To Other Funds			17		38		39,851
Interfund Payable						36	36
Total Current Liabilities	<u>0</u>	<u>264</u>	<u>18</u>	<u>1,125</u>	<u>35,644</u>	<u>63,635</u>	<u>100,686</u>
Non-Current Liabilities:							
Interfund Payable						529	529
Total Non-Current Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>529</u>	<u>529</u>
Total Liabilities	<u>0</u>	<u>264</u>	<u>18</u>	<u>1,125</u>	<u>35,644</u>	<u>64,164</u>	<u>101,215</u>
Fund Balances/(Deficits):							
Reserved for:							
Encumbrances							
Inventories					1	24,965	24,966
Imprest Accounts						8,965	8,965
Loans and Contracts		613,452		153,164		67	67
Total						18,580	785,196
Unreserved:							
Designated for:							
General Government							
Regulatory Services				11		31,575	397,603
Health and Human Services					38,088	10,249	48,337
Natural Resources and Recreation						9,568	9,568
Education		374,171		93,521		47,742	141,263
Transportation						67,130	441,631
Public Safety and Corrections						652	652
Employee Benefits						5,015	5,015
Total Fund Balances	<u>366,017</u>	<u>987,623</u>	<u>246,685</u>	<u>38,099</u>	<u>331</u>	<u>224,772</u>	<u>1,863,527</u>
Total Liabilities and Fund Balances	<u>\$ 366,017</u>	<u>\$ 987,887</u>	<u>\$ 246,703</u>	<u>\$ 39,224</u>	<u>\$ 35,975</u>	<u>\$ 288,936</u>	<u>\$1,964,742</u>

* The System Benefit Fund was previously reported within the Other Nonmajor Special Revenue Funds column.

** Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Special Revenue Funds column. The Available School Fund from the prior year is now reported in the Other Nonmajor Special Revenue Funds column also. These funds do not meet the materiality threshold for separate column presentation.

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Economic Stabilization Fund	Student Loan Funds	Water Development Funds	System Benefit Fund*	State Text Book Fund	Other Nonmajor Special Revenue Funds**	Totals
REVENUES							
Federal	\$ 5,026	\$ 468	\$ 22,253	\$ 133,883	\$ 252	\$ 4,336	\$ 27,057
Licenses, Fees, and Permits						92,663	226,546
Interest and Other Investment Income		36,460	4,060	163		(4,417)	41,544
Land Income						155,178	155,178
Sales of Goods and Services					1,750	748	2,498
Other		40,929				14,965	55,894
Total Revenues	<u>5,026</u>	<u>77,857</u>	<u>26,313</u>	<u>134,046</u>	<u>2,002</u>	<u>263,473</u>	<u>508,717</u>
EXPENDITURES							
Current:							
General Government	7			324		274,941	275,272
Education		5,826			147,346	1,305,241	1,458,413
Employee Benefits						11,737	11,737
Health and Human Services	(19)					17,856	17,837
Public Safety and Corrections						67,065	67,065
Transportation						1,919	1,919
Natural Resources and Recreation			34,402			12,685	47,087
Regulatory Services				100,368		9,165	109,533
Capital Outlay					19	4,496	4,515
Debt Service:							
Principal					25	764	789
Total Expenditures	<u>(12)</u>	<u>5,826</u>	<u>34,402</u>	<u>100,692</u>	<u>147,390</u>	<u>1,705,869</u>	<u>1,994,167</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,038</u>	<u>72,031</u>	<u>(8,089)</u>	<u>33,354</u>	<u>(145,388)</u>	<u>(1,442,396)</u>	<u>(1,485,450)</u>
OTHER FINANCING SOURCES (USES)							
Transfer In	352,566	80,103	2,399		349,015	1,802,490	2,586,573
Transfer Out	(553,000)	(157,474)	(4,614)			(366,670)	(1,081,758)
Bonds and Notes Issued			24,423			13	24,436
Bonds Issued for Refunding		58,083					58,083
Sale of Capital Assets						386	386
Total Other Financing Sources (Uses)	<u>(200,434)</u>	<u>(19,288)</u>	<u>22,208</u>	<u>0</u>	<u>349,015</u>	<u>1,436,219</u>	<u>1,587,720</u>
Net Change in Fund Balances	<u>(195,396)</u>	<u>52,743</u>	<u>14,119</u>	<u>33,354</u>	<u>203,627</u>	<u>(6,177)</u>	<u>102,270</u>
Fund Balances, September 1, 2003	561,413	934,880	232,566	4,745	(203,296)	215,706	1,746,014
Restatements						15,243	15,243
Fund Balances, September 1, 2003, as Restated	<u>561,413</u>	<u>934,880</u>	<u>232,566</u>	<u>4,745</u>	<u>(203,296)</u>	<u>230,949</u>	<u>1,761,257</u>
Fund Balances, August 31, 2004	<u>\$ 366,017</u>	<u>\$ 987,623</u>	<u>\$ 246,685</u>	<u>\$ 38,099</u>	<u>\$ 331</u>	<u>\$ 224,772</u>	<u>\$ 1,863,527</u>

* The System Benefit Fund was previously reported within the Other Nonmajor Special Revenue Funds column.

** Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Special Revenue Funds column. The Available School Fund from the prior year is now reported in the Other Nonmajor Special Revenue Funds column also. These funds do not meet the materiality threshold for separate column presentation.

State of Texas
Budgetary Comparison Schedule
Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Economic Stabilization Fund			
	Budgetary Amounts	Final	Actual Amounts	Final To Actual Variance
	Original		Budgetary Basis	
REVENUES				
Federal	\$	\$	\$	\$
Licenses, Fees, and Permits				
Interest and Other Investment Income	21,332	6,941	5,520	(1,421)
Land Income				
Sales of Goods and Services				
Other				
Total Revenues	<u>21,332</u>	<u>6,941</u>	<u>5,520</u>	<u>(1,421)</u>
EXPENDITURES				
General Government			22	(22)
Education				
Employee Benefits				
Health and Human Services			(20)	20
Public Safety and Corrections				
Natural Resources and Recreation				
Regulatory Services				
Total Expenditures	<u>0</u>	<u>0</u>	<u>2</u>	<u>(2)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>21,332</u>	<u>6,941</u>	<u>5,518</u>	<u>(1,423)</u>
Other Financing Sources (Uses)				
Transfer In	134,722	352,566	352,566	
Transfer Out	(811,000)	(811,000)	(553,000)	258,000
Sale of Capital Assets				
Available Beginning Balances	<u>560,487</u>	<u>560,487</u>	<u>560,487</u>	
Total Other Financing Sources (Uses)	<u>(115,791)</u>	<u>102,053</u>	<u>360,053</u>	<u>258,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ (94,459)</u>	<u>\$ 108,994</u>	<u>\$ 365,571</u>	<u>\$ 256,577</u>

Student Loan Funds				Water Development Funds							
Budgetary Amounts		Actual Amounts		Final To		Budgetary Amounts		Actual Amounts		Final To	
Original	Final	Budgetary Basis	Actual	Variance	Original	Final	Budgetary Basis	Actual	Variance	Original	Final
\$ 2,005	\$ 2,005	\$ 498	\$ 498	\$ 19,009	\$ 192	\$ 22,602	\$ 192	\$ 22,253	\$ (349)	\$ (192)	
		42,131	40,126	1,575		1,769		3,957		2,188	
41	41	40,926	40,885	23,462					(23,462)		
2,046	2,046	83,555	81,509	20,776	48,025	26,210			(21,815)		
		5,697	(5,697)								
									34,384	(34,384)	
0	0	5,697	(5,697)	0	0	34,384			(34,384)		
2,046	2,046	77,858	75,812	20,776	48,025	(8,174)			(56,199)		
		80,103	80,103			516			516		
		(157,474)	(157,474)			(4,738)			(4,738)		
198,449	198,449	198,449		84,467	84,467	84,467					
198,449	198,449	121,078	(77,371)	84,467	84,467	80,245			(4,222)		
\$ 200,495	\$ 200,495	\$ 198,936	\$ (1,559)	\$ 105,243	\$ 132,492	\$ 72,071			\$ (60,421)		

Concluded on the following two pages

State of Texas
Budgetary Comparison Schedule
Nonmajor Special Revenue Funds (concluded)

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	System Benefit Fund			
	Budgetary Amounts		Actual Amounts	Final To
	Original	Final	Budgetary Basis	Actual Variance
REVENUES				
Federal	\$	\$	\$	\$
Licenses, Fees, and Permits		166,130	133,883	(32,247)
Interest and Other Investment Income			163	163
Land Income				
Sales of Goods and Services				
Other				
Total Revenues	<u>0</u>	<u>166,130</u>	<u>134,046</u>	<u>(32,084)</u>
EXPENDITURES				
General Government	322	322	353	(31)
Education				
Employee Benefits				
Health and Human Services				
Public Safety and Corrections				
Natural Resources and Recreation				
Regulatory Services	<u>110,555</u>	<u>110,555</u>	<u>100,018</u>	<u>10,537</u>
Total Expenditures	<u>110,877</u>	<u>110,877</u>	<u>100,371</u>	<u>10,506</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(110,877)</u>	<u>55,253</u>	<u>33,675</u>	<u>(21,578)</u>
Other Financing Sources (Uses)				
Transfer In				
Transfer Out				
Sale of Capital Assets				
Available Beginning Balances	<u>9,685</u>	<u>9,685</u>	<u>9,685</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>9,685</u>	<u>9,685</u>	<u>9,685</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u><u>\$ (101,192)</u></u>	<u><u>\$ 64,938</u></u>	<u><u>\$ 43,360</u></u>	<u><u>\$ (21,578)</u></u>

State Text Book Fund				Other Nonmajor Special Revenue Funds							
Budgetary Amounts		Actual Amounts		Final To		Budgetary Amounts		Actual Amounts		Final To	
Original	Final	Budgetary Basis	Actual Variance	Original	Final	Budgetary Basis	Actual Variance	Original	Final	Budgetary Basis	Actual Variance
\$ 300	\$ 300	\$ 9	\$ 9	\$ 9,501	\$ 117,840	\$ 2,624	\$ 2,623				
318	318	232	(86)	735,445	893,239	46,115	(71,725)				
				2,038	2,038	59,590	(833,649)				
2,700	2,700	1,813	(887)	1,966	2,097	3,645	1,607				
				210	1,077	745	(1,352)				
<u>3,318</u>	<u>3,318</u>	<u>2,054</u>	<u>(1,264)</u>	<u>749,161</u>	<u>1,016,292</u>	<u>121,002</u>	<u>(895,290)</u>				
				76,099	96,585	84,189	12,396				
346,790	348,976	322,947	26,029	680,964	1,186,807	1,313,240	(126,433)				
					3,472	11,686	(8,214)				
				25,900	26,004	16,311	9,693				
				8,743	8,743	3,608	5,135				
				5,647	8,390	1,969	6,421				
					5,961	8,125	(2,164)				
<u>346,790</u>	<u>348,976</u>	<u>322,947</u>	<u>26,029</u>	<u>797,353</u>	<u>1,335,962</u>	<u>1,439,128</u>	<u>(103,166)</u>				
(343,472)	(345,658)	(320,893)	24,765	(48,192)	(319,670)	(1,318,126)	998,456				
772,431	343,062	349,015	5,953	709,796	725,607	1,732,073	1,006,466				
				(772,431)	(343,062)	(372,870)	(29,808)				
					191	386	195				
<u>7,554</u>	<u>7,554</u>	<u>7,554</u>	<u>5,953</u>	<u>108,780</u>	<u>108,780</u>	<u>108,780</u>	<u>195</u>				
<u>779,985</u>	<u>350,616</u>	<u>356,569</u>	<u>5,953</u>	<u>46,145</u>	<u>491,516</u>	<u>1,468,369</u>	<u>976,853</u>				
<u>\$ 436,513</u>	<u>\$ 4,958</u>	<u>\$ 35,676</u>	<u>\$ 30,718</u>	<u>\$ (2,047)</u>	<u>\$ 171,846</u>	<u>\$ 150,243</u>	<u>\$ (21,603)</u>				

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas Opportunity Plan Fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Student Loan Revenue Bond Fund** receives proceeds from the sale of revenue bonds and gifts or grants made to the Texas Higher Education Coordinating Board. Loans may be made from the fund to students qualifying for a loan under Subchapter C, Chapter 52.

The **Texas Military Facilities Commission Refund and Improvement Bond Fund** provides for the payment of principal and interest on the Commission's outstanding revenue bonds. The fund is composed of an Interest and Sinking Fund and a Reserve Fund.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Water Development Board Bond Funds** receive proceeds to pay debt service on the bonds issued for the purpose of providing financial assistance for the construction of water and wastewater related projects, water supply, and sewer services.

The **Texas Park Development Bond Interest and Sinking Fund** receives net receipts from entrance or gate fees and investment receipts. It is used exclusively for the purpose of paying principal of, and interest on, the bonds as they mature and also exchange and collection charges in connection therewith.

State of Texas
Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2004 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Student Loan Revenue Bond Fund	Texas Military Facilities Commission Refund and Improvement Bond Fund	Texas Public Finance Authority G.O. Bond Funds
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$	\$ 3,335	\$ 1,970	\$ 82	\$ 898
Investments					
Restricted Cash and Cash Equivalents	140,484				
Receivables:					
Federal Interest and Dividends	231 890		12		
Due From Other Funds			17		
Total Current Assets	<u>141,605</u>	<u>3,335</u>	<u>1,999</u>	<u>82</u>	<u>898</u>
Non-Current Assets:					
Investments		67,305			
Total Non-Current Assets	<u>0</u>	<u>67,305</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$ 141,605</u>	<u>\$ 70,640</u>	<u>\$ 1,999</u>	<u>\$ 82</u>	<u>\$ 898</u>
FUND BALANCES					
Reserved for Debt Service	<u>\$ 141,605</u>	<u>\$ 70,640</u>	<u>\$ 1,999</u>	<u>\$ 82</u>	<u>\$ 898</u>
Total Fund Balances	<u>\$ 141,605</u>	<u>\$ 70,640</u>	<u>\$ 1,999</u>	<u>\$ 82</u>	<u>\$ 898</u>

Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Texas Park Development Bond Interest and Sinking Fund	Totals
\$ 2,143	\$ 1	\$ 2,935	\$ 9,394
			1,970
			140,484
			243
	1	1	892
			17
<u>2,143</u>	<u>2</u>	<u>2,936</u>	<u>153,000</u>
			67,305
<u>0</u>	<u>0</u>	<u>0</u>	<u>67,305</u>
<u>\$ 2,143</u>	<u>\$ 2</u>	<u>\$ 2,936</u>	<u>\$ 220,305</u>
<u>\$ 2,143</u>	<u>\$ 2</u>	<u>\$ 2,936</u>	<u>\$ 220,305</u>
<u>\$ 2,143</u>	<u>\$ 2</u>	<u>\$ 2,936</u>	<u>\$ 220,305</u>

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Student Loan Revenue Bond Fund	Texas Military Facilities Commission Refund and Improvement Bond Fund	Texas Public Finance Authority G.O. Bond Funds
REVENUES					
Federal	\$ 1,760	\$ 6,761	\$ 101	\$ 4	\$ 32
Interest and Other Investment Income	5,323		22		
Total Revenues	<u>7,083</u>	<u>6,761</u>	<u>123</u>	<u>4</u>	<u>32</u>
EXPENDITURES					
Current:					
General Government					
Education	272		11		31
Debt Service:					
Principal	8,500	74,488	4,900	2,156	84,330
Interest	25,344	32,445	334	612	106,164
Total Expenditures	<u>34,116</u>	<u>106,933</u>	<u>5,245</u>	<u>2,768</u>	<u>190,525</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(27,033)</u>	<u>(100,172)</u>	<u>(5,122)</u>	<u>(2,764)</u>	<u>(190,493)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	153,969	83,159	3,506	1,576	190,188
Transfer Out	(90,105)	(2)	(4)		
Bonds and Notes Issued				68	
Payments to Escrow for Refunded Bonds	<u>(52,765)</u>	<u>83,157</u>	<u>3,502</u>	<u>1,644</u>	<u>(16,400)</u>
Total Other Financing Sources (Uses)	<u>11,099</u>				<u>173,788</u>
Net Change in Fund Balances	<u>(15,934)</u>	<u>(17,015)</u>	<u>(1,620)</u>	<u>(1,120)</u>	<u>(16,705)</u>
Fund Balances, September 1, 2003	157,539	87,655	3,619	1,202	1,203
Restatements					16,400
Fund Balances, September 1, 2003, as Restated	<u>157,539</u>	<u>87,655</u>	<u>3,619</u>	<u>1,202</u>	<u>17,603</u>
Fund Balances, August 31, 2004	<u>\$ 141,605</u>	<u>\$ 70,640</u>	<u>\$ 1,999</u>	<u>\$ 82</u>	<u>\$ 898</u>

Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Texas Park Development Bond Interest and Sinking Fund	Totals
\$ 16	\$ 1	\$ 3	\$ 1,861 12,162 14,023
20	1	3	51 283
19,900	7,840	4,075	206,189
886	16,402	1,658	183,845
<u>20,806</u>	<u>24,242</u>	<u>5,733</u>	<u>390,368</u>
(20,790)	(24,241)	(5,730)	(376,345)
21,783	24,242	8,666	487,089 (90,111) 68
<u>21,783</u>	<u>24,242</u>	<u>8,666</u>	<u>(69,165)</u> <u>327,881</u>
993	1	2,936	(48,464)
1,150	1		252,369 16,400
<u>1,150</u>	<u>1</u>	<u>0</u>	<u>268,769</u>
<u>\$ 2,143</u>	<u>\$ 2</u>	<u>\$ 2,936</u>	<u>\$ 220,305</u>

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair, or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Building and Procurement Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Department of Public Safety Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

The **Texas Mental Health and Mental Retardation Project Funds** are used to pay for the cost of construction, repair, and remodeling for certain mental health facilities.

The **Texas Military Facilities Commission Project Fund** is used to finance renovation and construction of new armories.

The **Texas School for the Deaf Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

The **School for the Blind and Visually Impaired Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

The **Texas Department of Transportation Project Funds** are used to provide financial assistance to counties for roadway projects serving border colonias.

The **Adjutant General's Department Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

The **Texas Department of Health Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

The **Texas Historical Commission Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

State of Texas

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2004 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds*	Texas Parks and Wildlife Department Project Funds	Texas Building and Procurement Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds	Texas Department of Public Safety Project Funds
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 4,757	\$36,530	\$ 5,025	\$14,821	\$ 9,271	\$ 282
Investments						
Receivables:						
Federal Accounts			826			
Interest and Dividends		11				
Due From Other Funds		24	3,904			
Interfund Receivable	10					
Inventories	1			736		
Total Assets	<u>\$ 4,768</u>	<u>\$36,565</u>	<u>\$ 9,755</u>	<u>\$15,557</u>	<u>\$ 9,271</u>	<u>\$ 282</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Current Liabilities:						
Payables:						
Accounts	\$ 7	\$ 1,452	\$ 388	\$ 2,375	\$ 290	\$
Payroll	70					
Other				469		
Deferred Revenues						
Due To Other Funds	39	213				
Interfund Payable	20					
Total Current Liabilities	<u>136</u>	<u>1,665</u>	<u>388</u>	<u>2,844</u>	<u>290</u>	<u>0</u>
Non-Current Liabilities:						
Interfund Payable						
Total Non-Current Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>136</u>	<u>1,665</u>	<u>388</u>	<u>2,844</u>	<u>290</u>	<u>0</u>
Fund Balances/(Deficits):						
Reserved for:						
Encumbrances		8,120	7,071	13,117	6,093	250
Inventories	1			736		
Public Finance Authority Programs	4,631	21,907	1,750	(1,140)	2,888	32
Unreserved:						
Designated for:						
General Government			57			
Public Safety and Corrections						
Undesignated						
Total Fund Balances	<u>4,632</u>	<u>34,900</u>	<u>9,367</u>	<u>12,713</u>	<u>8,981</u>	<u>282</u>
Total Liabilities and Fund Balances	<u>\$ 4,768</u>	<u>\$36,565</u>	<u>\$ 9,755</u>	<u>\$15,557</u>	<u>\$ 9,271</u>	<u>\$ 282</u>

Texas Mental Health and Mental Retardation Project Funds	Texas Military Facilities Commission Project Fund	Texas School for the Deaf Project Funds	School for the Blind and Visually Impaired Project Funds	Texas Department of Transportation Project Funds	Adjutant General's Department Project Funds	Texas Department of Health Project Funds	Texas Historical Commision Project Funds	Totals
\$ 5,439	\$ 548	\$ 92	\$ 953	\$17,872	\$ 2,161	\$ 2,039	\$ 361	\$100,151 13,529
	13,529							
	446							446
	37							863
1,392						(413)		11
								4,907
								10
	67							804
<u>\$ 6,831</u>	<u>\$14,627</u>	<u>\$ 92</u>	<u>\$ 953</u>	<u>\$17,872</u>	<u>\$ 2,161</u>	<u>\$ 1,626</u>	<u>\$ 361</u>	<u>\$120,721</u>
\$ 527	\$ 479	\$	\$ (23)	\$ 1,662	\$ 453	\$	\$ 40	\$ 7,650 169
99								469
								180
	180							252
								20
<u>626</u>	<u>659</u>	<u>0</u>	<u>(23)</u>	<u>1,662</u>	<u>453</u>	<u>0</u>	<u>40</u>	<u>8,740</u>
1,934								1,934
1,934	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,934</u>
2,560	<u>659</u>	<u>0</u>	<u>(23)</u>	<u>1,662</u>	<u>453</u>	<u>0</u>	<u>40</u>	<u>10,674</u>
2,649	2,796		485		296		24,866	65,743
	67							804
3,065		92	491	16,210	1,412	1,626	(24,545)	28,419
	11,105							57
(1,443)								11,105
4,271	<u>13,968</u>	<u>92</u>	<u>976</u>	<u>16,210</u>	<u>1,708</u>	<u>1,626</u>	<u>321</u>	<u>3,919</u>
<u>\$ 6,831</u>	<u>\$14,627</u>	<u>\$ 92</u>	<u>\$ 953</u>	<u>\$17,872</u>	<u>\$ 2,161</u>	<u>\$ 1,626</u>	<u>\$ 361</u>	<u>\$120,721</u>

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds*	Texas Parks and Wildlife Department Project Funds	Texas Building and Procurement Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds	Texas Department of Public Safety Project Funds	Texas Mental Health and Mental Retardation Project Funds
REVENUES							
Federal Interest and Other Investment Income	\$ 73	\$ 674	\$ 229	\$ 459	\$ 2,747	\$ 26	\$ 70
Sales of Goods and Services			4,189				
Other							5
Total Revenues	<u>73</u>	<u>674</u>	<u>4,418</u>	<u>459</u>	<u>2,918</u>	<u>26</u>	<u>75</u>
EXPENDITURES							
Current:							
General Government	2,871		35				
Education							
Health and Human Services							8,781
Public Safety and Corrections				6,822		4,890	
Transportation							
Natural Resources and Recreation		2,760					
Capital Outlay	8,969	9,992	8,275	19,777	7,145		728
Total Expenditures	<u>11,840</u>	<u>12,752</u>	<u>8,310</u>	<u>26,599</u>	<u>7,145</u>	<u>4,890</u>	<u>9,509</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(11,767)</u>	<u>(12,078)</u>	<u>(3,892)</u>	<u>(26,140)</u>	<u>(4,227)</u>	<u>(4,864)</u>	<u>(9,434)</u>
OTHER FINANCING SOURCES (USES)							
Transfer In	312		251				236
Transfer Out	(332)	(2,560)	(10,083)	(6)	(1)		(495)
Bonds and Notes Issued	10,000		2,500		1,450		9,300
Total Other Financing Sources (Uses)	<u>9,980</u>	<u>(2,560)</u>	<u>(7,332)</u>	<u>(6)</u>	<u>1,449</u>	<u>0</u>	<u>9,041</u>
Net Change in Fund Balances	<u>(1,787)</u>	<u>(14,638)</u>	<u>(11,224)</u>	<u>(26,146)</u>	<u>(2,778)</u>	<u>(4,864)</u>	<u>(393)</u>
Fund Balances, September 1, 2003	6,419	49,538	20,591	38,859	11,759	5,146	4,674
Restatements							(10)
Fund Balances, September 1, 2003, as Restated	<u>6,419</u>	<u>49,538</u>	<u>20,591</u>	<u>38,859</u>	<u>11,759</u>	<u>5,146</u>	<u>4,664</u>
Fund Balances, August 31, 2004	<u>\$ 4,632</u>	<u>\$ 34,900</u>	<u>\$ 9,367</u>	<u>\$ 12,713</u>	<u>\$ 8,981</u>	<u>\$ 282</u>	<u>\$ 4,271</u>

* Several Project Funds previously reported within the Texas Public Finance Authority Administration Project Funds have been reallocated to the column of the related project. Since this is only a change in column composition and not a change in total beginning Fund Balances, no restatement was necessary.

Texas Military Facilities Commission Project Fund	Texas School for the Deaf Project Funds	School for the Blind and Visually Impaired Project Funds	Texas Department of Transportation Project Funds	Adjutant General's Department Project Funds	Texas Department of Health Project Funds	Texas Historical Commission Project Funds	Totals
\$ 12,685	\$ 7	\$ 51	\$ 269	\$ 42	\$ 35	\$ 5	\$ 15,432
48							2,159
115							4,304
1							6
<u>12,849</u>	<u>7</u>	<u>51</u>	<u>269</u>	<u>42</u>	<u>35</u>	<u>5</u>	<u>21,901</u>
	79	(6)					134
							3,040
							73
							8,781
852				32			12,596
		10,741					10,741
							2,760
13,053	<u>79</u>	<u>3,406</u>	<u>10,741</u>	<u>1,283</u>	<u>103</u>		<u>72,731</u>
13,905	<u>79</u>	<u>3,400</u>	<u>10,741</u>	<u>1,315</u>	<u>103</u>	<u>134</u>	<u>110,722</u>
(1,056)	<u>(72)</u>	<u>(3,349)</u>	<u>(10,472)</u>	<u>(1,273)</u>	<u>(68)</u>	<u>(129)</u>	<u>(88,821)</u>
							799
(202)							(13,392)
13,514	<u>0</u>	<u>0</u>	<u>25,000</u>		<u>287</u>		<u>62,914</u>
13,312	<u>0</u>	<u>0</u>	<u>25,000</u>	<u>0</u>	<u>700</u>	<u>450</u>	<u>50,321</u>
12,256	<u>(72)</u>	<u>(3,349)</u>	<u>14,528</u>	<u>(1,273)</u>	<u>919</u>	<u>321</u>	<u>(38,500)</u>
1,712	164	4,325	1,682	2,981	707		148,557
1,712	<u>164</u>	<u>4,325</u>	<u>1,682</u>	<u>2,981</u>	<u>707</u>	<u>0</u>	<u>(10)</u>
<u>\$ 13,968</u>	<u>\$ 92</u>	<u>\$ 976</u>	<u>\$ 16,210</u>	<u>\$ 1,708</u>	<u>\$ 1,626</u>	<u>\$ 321</u>	<u>\$110,047</u>

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** is a permanent fund established by the legislature from a portion of the money received in the settlement of The State of Texas v. The American Tobacco Co., et.al. The corpus of the account has been designated by the legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education, and enforcement.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches \$2 billion, and each year thereafter, 10 percent of the interest, dividends, and other income accruing from investments during the previous

fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in Article VII, sec. 17(a) of the constitution.

The **Texas Commission on the Arts Trust Funds** are comprised primarily of the Texas Cultural Endowment Fund accounts held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development, and advance the well being of communities.

State of Texas Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2004 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Funds	Other Nonmajor Permanent Funds	Totals
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 42,266	\$ 35,553	\$ 424	\$ 452	\$ 876
Securities Lending Collateral					77,819
Investments	6,751	6,537			13,288
Receivables:					
Accounts				30	30
Interest and Dividends	1,409	1,167			2,576
Investment Trades	1,006	796			1,802
Total Current Assets	<u>51,432</u>	<u>44,053</u>	<u>424</u>	<u>482</u>	<u>96,391</u>
Non-Current Assets:					
Investments	<u>471,269</u>	<u>419,851</u>	<u>11,089</u>	<u>2,532</u>	<u>904,741</u>
Total Non-Current Assets	<u>471,269</u>	<u>419,851</u>	<u>11,089</u>	<u>2,532</u>	<u>904,741</u>
Total Assets	<u>\$ 522,701</u>	<u>\$ 463,904</u>	<u>\$ 11,513</u>	<u>\$ 3,014</u>	<u>\$ 1,001,132</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables:					
Accounts	\$ 300	\$ 300	\$	\$	\$ 600
Investment Trades	2,736	2,147			4,883
Obligations/ Securities Lending	42,266	35,553			77,819
Total Liabilities	<u>45,302</u>	<u>38,000</u>	<u>0</u>	<u>0</u>	<u>83,302</u>
Fund Balances:					
Reserved for:					
Encumbrances				115	115
General Government		425,904			425,904
Unreserved:					
Designated for:					
Permanent Health Fund	477,399				477,399
Undesignated	<u>477,399</u>	<u>425,904</u>	<u>11,513</u>	<u>2,899</u>	<u>14,412</u>
Total Fund Balances	<u>477,399</u>	<u>425,904</u>	<u>11,513</u>	<u>3,014</u>	<u>917,830</u>
Total Liabilities and Fund Balances	<u>\$ 522,701</u>	<u>\$ 463,904</u>	<u>\$ 11,513</u>	<u>\$ 3,014</u>	<u>\$ 1,001,132</u>

State of Texas
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Funds	Other Nonmajor Permanent Funds	Totals
REVENUES					
Interest and Other Investment Income	\$ 55,979	\$ 49,620	\$ 1,152	\$ 122	\$ 106,873
Land Income				11	11
Other			18		18
Total Revenues	<u>55,979</u>	<u>49,620</u>	<u>1,170</u>	<u>133</u>	<u>106,902</u>
EXPENDITURES					
Current:					
General Government	2,406	2,229	63	110	4,808
Natural Resources and Recreation				42	42
Capital Outlay				9	9
Total Expenditures	<u>2,406</u>	<u>2,229</u>	<u>63</u>	<u>161</u>	<u>4,859</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>53,573</u>	<u>47,391</u>	<u>1,107</u>	<u>(28)</u>	<u>102,043</u>
OTHER FINANCING SOURCES (USES)					
Transfer In			850		850
Transfer Out	(21,665)		(350)	(11)	(22,026)
Total Other Financing Sources (Uses)	<u>(21,665)</u>	<u>0</u>	<u>500</u>	<u>(11)</u>	<u>(21,176)</u>
Net Change in Fund Balances	<u>31,908</u>	<u>47,391</u>	<u>1,607</u>	<u>(39)</u>	<u>80,867</u>
Fund Balances, September 1, 2003	<u>445,491</u>	<u>378,513</u>	<u>9,906</u>	<u>3,053</u>	<u>836,963</u>
Fund Balances, August 31, 2004	<u><u>\$ 477,399</u></u>	<u><u>\$ 425,904</u></u>	<u><u>\$ 11,513</u></u>	<u><u>\$ 3,014</u></u>	<u><u>\$ 917,830</u></u>

Enterprise Funds



Christmas lights at the Harrison County Historical Museum, built in the early 1900's as the county courthouse.

Kids waiting for the Cinco de Mayo parade.

Colleges and Universities – Major Enterprise Fund

There are six university system offices and five independent universities in Texas' primary government presented in a single-column as a major fund on the Basic Financial Statements. A combining statement has been prepared to report the breakdown of the following universities:

The University of Texas System
Texas A&M University System
Texas Tech University System
The University of Houston System
Texas State University System
The University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

State of Texas
Combining Statement of Net Assets
Enterprise Funds – Colleges and Universities

August 31, 2004 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 1,962,059	\$ 183,831	\$ 178,161	\$ 137,740	\$ 368,054
Securities Lending Collateral	1,060,977	169,326			
Investments		192,447		93,923	2,684
Restricted:					
Cash and Cash Equivalents	474,705	71,681	104,123	17,333	17,676
Short Term Investments		187,481			
Loans and Contracts				6,555	
Receivables:					
Federal	160,106	71,213	7,570	9,109	8,351
Other Intergovernmental	16,006	19,831			
Accounts	172,147	26,286	20,288	8,844	52,558
Interest and Dividends	19,609	7,427	1,487	1,586	470
Gifts	46,750	7,747	18,243	15,570	
Investment Trades	359,798	34,009			
Other	563,897	63,500	9,476	18,271	5,620
Due From Other Funds	77,310	98,371	44,701	52,788	46,438
Inventories	44,618	28,426	3,509	2,961	4,001
Prepaid Items		402	12,094	20,696	21,083
Loans and Contracts	39,155	17,086	6,860		2,789
Other Current Assets	166,699	17,844	54		12,825
Total Current Assets	5,163,836	1,196,908	406,566	385,376	542,549
Non-Current Assets:					
Restricted:					
Cash and Cash Equivalents	307		32,762	27,555	27,408
Short Term Investments					3,289
Investments	13,600,488	470,917	121,435		74,819
Receivables			43,367	565	5,998
Loans and Contracts	88,319	6,377	4,363		1,480
Loans and Contracts		20,476		11,497	
Investments	2,103,419	1,030,902	499,587	475,894	89,969
Gifts	94,072				
Capital Assets:					
Non-Depreciable	2,394,566	708,121	254,724	261,225	363,370
Depreciable	7,754,692	2,891,861	1,069,160	810,338	1,037,899
Accumulated Depreciation	(3,627,667)	(1,785,814)	(575,617)	(573,266)	(668,416)
Assets Held in Trust	56,076	362			
Other Non-Current Assets	23,236	1,064			1,041
Total Non-Current Assets	22,487,508	3,344,266	1,449,781	1,013,808	936,857
Total Assets	27,651,344	4,541,174	1,856,347	1,399,184	1,479,406

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$121,774	\$ 20,982	\$ 32,150	\$ 18,500	\$ 3,234	\$ 21,356	\$ 3,047,841 1,230,303
2,748	5,784	751		9,122	6,694	314,153
26,248	29,657	7,231	269	28	2,109	751,060
593	14,198	4,654	52,937	811	2,247	262,921 6,569
9,080	4,629	433	4,103	127	1,180	275,901 37,467
908		722				
24,922	5,857	5,190	16,727	3,868	11,037	347,724
714	615	130		102	22	32,162
1,381			1,520	279		91,490 393,807
9,362	30	6,522	44	626	661	678,009
39,143	6,033	9,232	3,826	3,769	8,439	390,050
3,264	1,151	520	542	294	3,237	92,523
155		8,459		4,148		67,037
5,955	2,530	3,097				77,472
16,109			3,690		21	217,242
262,201	<u>91,621</u>	<u>79,091</u>	<u>102,158</u>	<u>26,422</u>	<u>57,003</u>	<u>8,313,731</u>
52,546	47,819	36,256	14,712	7,302	201	88,032 10,792
				15,332		14,434,324
				11,182		61,112
3,754			2,413			106,706
		6,326		92		38,391
63,321		17,486		1,103		4,281,681
1,468			4,550	1,500		101,590
156,659	33,901	51,292	77,636	20,512	5,741	4,327,747
552,823	199,046	182,765	235,736	97,885	140,423	14,972,628
(294,191)	(94,137)	(148,800)	(138,863)	(51,855)	(91,389)	(8,050,015)
338		1,729				56,438 27,408
536,718	<u>186,629</u>	<u>147,054</u>	<u>196,184</u>	<u>103,053</u>	<u>54,976</u>	<u>30,456,834</u>
798,919	<u>278,250</u>	<u>226,145</u>	<u>298,342</u>	<u>129,475</u>	<u>111,979</u>	<u>38,770,565</u>

Concluded on the following page

State of Texas
Combining Statement of Net Assets
Enterprise Funds – Colleges and Universities (concluded)

August 31, 2004 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	\$ 570,493	\$ 60,919	\$ 39,116	\$ 32,894	\$ 20,909
Payroll		75,825	37,333	32,232	8,532
Other Intergovernmental	12	18,769		3,404	
Federal	62,371			4,451	
Investment Trades	675,938	66,760			
Due To Other Funds	8,757	56	225		187
Deferred Revenue	792,379	265,936	76,309	100,404	161,392
Obligations/Securities Lending	1,060,977	169,326			
Claims and Judgments		11,810	2,937		
Capital Lease Obligations	845	52			13
Employees' Compensable Leave	23,782	3,508	5,360	7,404	8,938
Notes and Loans Payable	637,760	86,580	14,911		
General Obligation Bonds Payable	3,140				4,310
Revenue Bonds Payable	100,810	56,216	14,130	14,525	18,339
Liabilities Payable From Restricted Assets	86,293				
Funds Held for Others	9,474	43,858	9,592	5,178	26,925
Other Current Liabilities	206,608	11,157	27,090		23,487
Total Current Liabilities	<u>4,239,639</u>	<u>870,772</u>	<u>227,003</u>	<u>200,492</u>	<u>273,032</u>
Non-Current Liabilities:					
Interfund Payable	7,921	3,545	1,873		
Claims and Judgments		9,024	26,435		
Capital Lease Obligations	440	1,331			29
Employees' Compensable Leave	278,265	71,572	19,353	8,783	5,138
Notes and Loans Payable	22,775	143,420			501
Liabilities Payable From Restricted Assets	3				
General Obligation Bonds Payable					
Revenue Bonds Payable	2,369,470	915,978	353,530	283,759	340,820
Assets Held for Others	330,704	362			
Other Non-Current Liabilities	8,394	22,654	78		1,658
Total Non-Current Liabilities	<u>3,017,972</u>	<u>1,167,886</u>	<u>401,269</u>	<u>292,542</u>	<u>348,146</u>
Total Liabilities	<u>7,257,611</u>	<u>2,038,658</u>	<u>628,272</u>	<u>493,034</u>	<u>621,178</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	3,738,329	748,525	438,452	274,231	369,341
Restricted for:					
Education	1,033,573	173,111	99,167	67,600	38,855
Debt Retirement	4,760		5,067	2	4,989
Capital Projects	91,124		36,516	19,180	41,715
Funds Held as Permanent Investments:					
Nonexpendable	12,411,297	339,618	287,794	326,888	125,837
Expendable	175,995	40,202			1,998
Unrestricted	2,938,655	1,201,060	361,079	218,249	275,493
Total Net Assets	<u>\$20,393,733</u>	<u>\$2,502,516</u>	<u>\$1,228,075</u>	<u>\$ 906,150</u>	<u>\$ 858,228</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 20,387 31,119	\$ 9,901	\$ 1,745 3,883 1,998	\$ 5,809 4,485	\$ 1,422 67	\$ 2,818 5,482 417	\$ 766,413 198,891 24,250 67,239 742,698 10,415 1,589,741 1,230,303 14,747 1,850 53,589 743,251 15,340 220,420 86,293 123,182 282,519 6,171,141
1,088 82,180	102 20,697	30,692	34,928	14,217	10,607	
52 978 4,000	145 1,346	155 445	1,337	147 142	441 349	
2,070 6,310	2,470	1,245 2,455	3,035 3,790	960	1,540 415	
13,739 5,196		7,875 1,110	3,051 2,537	128 3,253	3,362 614	
<u>165,049</u>	<u>38,198</u>	<u>51,603</u>	<u>58,972</u>	<u>20,336</u>	<u>26,045</u>	<u>6,171,141</u>
					300	13,639 35,459
13 9,840	2,658 808	551 1,920	1,185	157 875	4,299 4,309	9,478 402,048 166,696 3
193,585	15,000 30,415	440 55,535	10,125 116,465	11,185 27,775	9,575	36,750 4,696,907 331,233
<u>203,438</u>	<u>49,059</u>	<u>686</u>	<u>2,788</u>	<u>214</u>	<u>9</u>	<u>36,492</u>
<u>368,487</u>	<u>87,257</u>	<u>110,735</u>	<u>189,535</u>	<u>60,542</u>	<u>44,537</u>	<u>11,899,846</u>
212,230	85,975	57,286	85,667	42,229	40,136	6,092,401
11,796 2,365	3,290	12,476 300 1,660		2,970	753	1,443,591 17,483 190,364
14,563	2,929	6,048	20,942		201	13,536,117
<u>189,478</u>	<u>\$190,993</u>	<u>\$115,410</u>	<u>\$108,807</u>	<u>\$ 68,933</u>	<u>\$ 67,442</u>	<u>\$26,870,719</u>

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Enterprise Funds – Colleges and Universities

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	\$ 841,763	\$ 5,721	\$ 26,941	\$ 252,501	\$ 237,822
Tuition Revenue - Pledged		435,580	147,974		8,007
Discounts and Allowances	(166,656)	(80,823)	(12,246)	(39,597)	(38,690)
Hospital Revenue - Pledged	3,807,056		5,258		
Discounts and Allowances	(1,917,701)				
Professional Fees	2,325,823	13,827			
Professional Fees - Pledged	4,500	5,126	82,173		
Discounts and Allowances	(1,629,206)				
Auxiliary Enterprises					34,439
Auxiliary Enterprises - Pledged	252,114	184,809		37,897	40,232
Discounts and Allowances	(7,472)	(9,134)			(5,516)
Other Sales of Goods and Services		23,429			12,591
Other Sales of Goods and Services - Pledged	224,367	79,504	7,082	17,199	
Discounts and Allowances	(89)				
Interest and Investment Income					113
Interest and Investment Income - Pledged		801			90
Federal Revenue	1,197,301	443,938	54,529	87,981	70,899
State Grant Revenue	46,073	58,753	84,201	7,875	8,011
Other Operating Grant Revenue	520,198	69,425	87,462	10,566	6,642
Other Revenues	34,737	23,511			11,717
Other Revenues - Pledged	34,393	12,848	66,592	224	
Total Operating Revenues	5,567,201	1,267,315	549,966	374,646	386,357
OPERATING EXPENSES					
Cost of Goods Sold	99,152	20,244		1,440	6,290
Salaries and Wages	3,962,688	1,062,712	427,912	351,610	309,925
Payroll Related Costs	900,566	244,030	100,226	74,316	70,584
Professional Fees and Services	143,264	117,135	53,651	3,991	30,164
Travel	85,076	47,643	9,054	9,701	9,195
Materials and Supplies	762,090	145,038	64,333	1,269	50,140
Communication and Utilities	204,150	87,330	28,884	29,735	29,284
Repairs and Maintenance	116,363	58,218	14,762	7,771	11,976
Rentals and Leases	79,995	25,924	12,249	9,108	8,038
Printing and Reproduction	29,242	14,986	5,541	4,622	4,680
Depreciation and Amortization	372,830	98,305	29,950	26,035	29,151
Bad Debt Expense	1,423	18	40	332	378
Interest Expense		126		2,877	31
Scholarships	200,490	102,864	38,052	47,735	47,664
Claims and Judgments	4,353	94	883	1,578	52
Other Expenses	593,519	158,097	35,377	78,248	35,842
Total Operating Expenses	7,555,201	2,182,764	820,914	650,368	643,394
Operating Income (Loss)	(1,988,000)	(915,449)	(270,948)	(275,722)	(257,037)

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 26,791 87,136 (18,181)	\$ 38,298 15,109 (4,393)	\$ 25,785 15,109 (9,160)	\$ 46,036 (15,789)	\$ 18,220 188 (9,664)	\$ 2,671 20,121 (395,199)	\$ 634,750 1,601,914 3,812,314 (1,917,701) 2,373,749 91,799 (1,630,056)
34,099						
(850)						
1,789 28,927	6,527 6,877	856 23,319	4,535 (882)	3,496 1,461	965 12,381 (1,229)	44,576 594,587 (24,233) 99,166
57,627		4,058		3,626	901	339,108 (89) 276
		163				1,138
45,833 335	9,349 770	13,746 527	35,222 716	722 430	18,826 557 124	1,978,346 207,818 712,192 73,845
10,351 3,824	744 2	2,006 54	4,244			
	1,483		2,773	348	2	118,663
277,681	<u>59,657</u>	<u>76,463</u>	<u>82,044</u>	<u>24,305</u>	<u>51,328</u>	<u>8,716,963</u>
353 234,752	180 55,796	9,306 60,892	10 61,143	27,151 6,487	3,953 59,546	140,928 6,614,127
50,888 13,851	13,478 1,864	14,595 2,656	12,811 6,732	6,487 2,387	17,583 1,289	1,505,564 376,984
5,254 39,451	1,046 8,358	1,648 4,551	1,776 6,713	770 4,250	894 13,805	172,057 1,099,998
13,835 7,827	5,204 2,855	7,652 2,311	4,646 1,017	2,208 1,084	5,790 2,183	418,718 226,367
8,743 1,803	1,275 727	1,231 350	3,133 639	426 313	1,007 260	151,129 63,163
16,350 127	8,316 127	3,554 63	6,461 1,100	3,334 142	5,657 29	599,943 3,750 3,077
11 25,983	14,152	1 12,520	1 18,347	1 6,152	8,344 158	522,303 7,773
20,865	5,836	9,456	10,973		4,839	953,052
440,093	<u>119,214</u>	<u>130,786</u>	<u>136,157</u>	<u>54,705</u>	<u>125,337</u>	<u>12,858,933</u>
(162,412)	<u>(59,557)</u>	<u>(54,323)</u>	<u>(54,113)</u>	<u>(30,400)</u>	<u>(74,009)</u>	<u>(4,141,970)</u>

Concluded on the following page

State of Texas

Combining Statement of Revenues, Expenses, and Changes in Net Assets Enterprise Funds – Colleges and Universities (concluded)

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	\$ 165,564	\$ 26,293	\$ 516	\$ 27,997	\$ 16,535
Gifts		68,459			
Gifts - Pledged	16,352		30,532		
Land Income		4,899			
Interest and Investment Income	1,631,958	44,135	60,318	36,781	12,513
Interest and Investment Income- Pledged	191,731	92,241	3,497	1,053	
Investing Activities Expense	(36,716)	(4,500)			(58)
Interest Expense	(90,945)	(51,785)		(12,652)	(16,650)
Borrower Rebates and Agent Fees		(80)			
Gain (Loss) on Sale of Capital Assets	(20,521)	(7,343)	(2,875)	(8)	
Claims and Judgments		(481)			(369)
Other Revenues	114,462	22,041	14,636		394
Other Expenses	(64,776)	(56,518)	(14,839)	(76,956)	(2,639)
Total Nonoperating Revenues (Expenses)	<u>1,907,109</u>	<u>137,361</u>	<u>91,785</u>	<u>(23,785)</u>	<u>9,726</u>
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers	<u>(80,891)</u>	<u>(778,088)</u>	<u>(179,163)</u>	<u>(299,507)</u>	<u>(247,311)</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS AND TRANSFERS					
Capital Contributions - Federal	9,752				
Capital Contributions - Other	78,770	8,218	1,706		276
Contributions to Endowments	214,313	6,794	5,884	5,046	156
Extraordinary Items	(13,401)				
Transfer In	2,028,427	959,930	291,973	275,396	297,308
Transfer Out	<u>(443,020)</u>	<u>(1,296)</u>	<u>(409)</u>	<u>(727)</u>	<u>(262)</u>
Total Capital Contributions, Endowments, Extraordinary Items and Transfers	<u>1,874,841</u>	<u>973,646</u>	<u>299,154</u>	<u>279,715</u>	<u>297,478</u>
Change in Net Assets	<u>1,793,950</u>	<u>195,558</u>	<u>119,991</u>	<u>(19,792)</u>	<u>50,167</u>
Net Assets, September 1, 2003	18,609,443	2,349,478	1,102,120	925,954	821,471
Restatements	<u>(9,660)</u>	<u>(42,520)</u>	<u>5,964</u>	<u>(12)</u>	<u>(13,410)</u>
Net Assets, September 1, 2003, as Restated	<u>18,599,783</u>	<u>2,306,958</u>	<u>1,108,084</u>	<u>925,942</u>	<u>808,061</u>
Net Assets, August 31, 2004	<u>\$20,393,733</u>	<u>\$2,502,516</u>	<u>\$1,228,075</u>	<u>\$906,150</u>	<u>\$ 858,228</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 10,752	\$ 1,805	\$ 1,948	\$ 2,294	\$ 4,549	\$ 10	\$ 31,358
42						265,562
						76,728
						4,899
8,288	3,014	1,041	267	670		1,798,985
	(303)		1,475		225	289,919
		(16)	(1,890)			(43,180)
(9,792)	(2,883)	(397)	(5,602)	(759)	(602)	(192,067)
						(80)
59	(569)	(369)		(16)	(87)	(31,729)
(993)						(1,843)
38		86	1,504	11	188	153,360
(42)	6	2,293	(1,710)	(89)	(2,071)	(219,634)
<u>8,352</u>	<u>1,070</u>	<u>2,293</u>	<u>(5,956)</u>	<u>6,660</u>	<u>(2,337)</u>	<u>2,132,278</u>
<u>(154,060)</u>	<u>(58,487)</u>	<u>(52,030)</u>	<u>(60,069)</u>	<u>(23,740)</u>	<u>(76,346)</u>	<u>(2,009,692)</u>
4,865				1,500	1,117	9,752
57	657	1,937		338		96,452
						235,182
						(13,401)
196,516	62,923	57,126	63,704	24,837	77,428	4,335,568
(1,533)	(1,381)	(117)	(50)	(8)	(1,467)	(450,270)
<u>199,905</u>	<u>61,542</u>	<u>57,666</u>	<u>65,591</u>	<u>26,667</u>	<u>77,078</u>	<u>4,213,283</u>
<u>45,845</u>	<u>3,055</u>	<u>5,636</u>	<u>5,522</u>	<u>2,927</u>	<u>732</u>	<u>2,203,591</u>
384,587	172,403	107,090	103,608	77,707	66,710	24,720,571
	15,535	2,684	(323)	(11,701)		(53,443)
<u>384,587</u>	<u>187,938</u>	<u>109,774</u>	<u>103,285</u>	<u>66,006</u>	<u>66,710</u>	<u>24,667,128</u>
<u>\$ 430,432</u>	<u>\$ 190,993</u>	<u>\$ 115,410</u>	<u>\$ 108,807</u>	<u>\$ 68,933</u>	<u>\$ 67,442</u>	<u>\$ 26,870,719</u>

State of Texas
Combining Statement of Cash Flows
Enterprise Funds – Colleges and Universities

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 2,553,189	\$ 124,940	\$ 81,467	\$ 21,767	\$ 17,538
Proceeds from Tuition and Fees	757,752	440,111	168,313	233,106	222,448
Proceeds from Research Grant and Contracts	1,929,712	687,619	245,107	28,333	37,234
Proceeds from Gifts					608
Proceeds from Loan Programs	91,087	12,637	916	4,149	10,316
Proceeds from Auxiliaries	246,361	175,627	68,482	40,956	66,390
Proceeds from Other Revenues	319,759	37,413	19,414	97,668	82,115
Payments to Suppliers for Goods and Services	(2,342,195)	(756,804)	(209,316)	(72,169)	(169,489)
Payments to Employees	(4,877,889)	(1,303,049)	(419,887)	(432,842)	(386,019)
Payments for Loans Provided	(101,165)	(18,145)	(1,126)	(5,130)	(13,403)
Payments for Other Expenses	(36,733)	(161,019)	(181,513)	(113,137)	(65,703)
Net Cash Provided by Operating Activities	(1,460,122)	(760,670)	(228,143)	(197,299)	(197,965)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from Debt Issuance					20,499
Proceeds from State Appropriations	1,553,121	769,325	270,495	197,875	281,594
Proceeds from Gifts	177,330	66,730	38,536	31,914	12,877
Proceeds from Endowments	206,241	6,794		6,178	1,185
Proceeds from Transfers from Other Funds		136,022	968		3,061
Proceeds from Grant Receipts		26,293			287
Proceeds from Other Financing Activities	44,190	27,798	14,732	17,239	845
Proceeds from Contributed Capital					27,000
Payments of Principal on Debt Issuance			(78)		(5,028)
Payments of Interest					
Payments of Other Costs of Debt Issuance					
Payments for Transfers to Other Funds	(120,602)	(569)	(305)		(3,866)
Payments for Other Uses	(31,675)			(3,531)	(4,470)
Net Cash Provided by Noncapital Financing Activities	1,828,605	1,032,393	324,348	249,675	333,984
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	1,035	811		3	
Proceeds from Debt Issuance	1,525,004	93,651	101,334	1,553	914
Proceeds from State Grants and Contracts		17,775			
Proceeds from Gifts	82,984				
Proceeds from Other Financing Activities				1,106	
Proceeds from Capital Contributions			1,706		
Proceeds of Advances from Other Funds	7,131		28,697	36,953	38,175
Payments for Additions to Capital Assets	(1,154,674)	(231,368)	(95,651)	(41,281)	(102,859)
Payments of Principal on Debt Issuance	(1,134,568)	(60,315)	(47,765)	(8)	(51,096)
Payments for Capital Leases					(39)
Payments of Interest on Debt Issuance	(89,013)	(52,393)		(3,039)	(17,243)
Payments on Other Costs of Debt Issuance	(49,787)	(98)	(169)	(22,119)	(1,294)
Net Cash Provided by Capital and Related Financing Activities	(811,888)	(231,937)	(11,848)	(26,832)	(133,442)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	18,388,480	3,170,613	128,342		
Proceeds from Interest and Investment Income	512,533	39,664	53,074	1,688	10,239
Payments to Acquire Investments	(18,096,794)	(3,223,121)	(112,096)		(23,666)
Net Cash Provided by Investing Activities	804,219	(12,844)	69,320	1,688	(13,427)
Net Increase (Decrease) in Cash and Cash Equivalents	360,814	26,942	153,677	27,232	(10,850)
Cash and Cash Equivalents, September 1, 2003	2,070,857	239,963	161,369	155,396	423,988
Restatements	5,400	(11,393)			
Cash and Cash Equivalents, September 1, 2003, as Restated	2,076,257	228,570	161,369	155,396	423,988
Cash and Cash Equivalents, August 31, 2004	\$ 2,437,071	\$ 255,512	\$ 315,046	\$ 182,628	\$ 413,138

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 80,371	\$ 51,701	\$ 37,872	\$ 11,775	\$ 1,315	\$ 18,582	\$ 2,899,169
162,546				19,776	14,372	2,119,772
65,894	13,685	19,726	37,948		27,080	3,092,338
						608
9,543			53,978	17		182,643
30,646		30,660	7,525	3,496		670,143
188	1,485	200	10,580	1,359	1,508	571,689
(100,265)	(20,463)	(40,196)	(32,919)	(17,170)	(42,533)	(3,803,519)
(285,954)	(71,332)	(75,497)	(74,914)	(33,546)	(77,788)	(8,038,717)
(8,514)	(14,152)	(1,522)	(35,507)	(20)		(198,684)
(45,038)	(5,134)	(13,829)	(15,807)			(637,913)
(90,583)	(44,210)	(42,586)	(37,341)	(24,773)	(58,779)	(3,142,471)
4,000						24,499
141,432	54,137	47,944	53,523	20,948	71,663	3,462,057
10,440		1,948		2,069	10	341,854
58		583	1,937			222,976
						140,051
11,240	1,805	85	3,071	5,662		32,242
42				338		121,193
(192)						27,380
(61)			(1)			(5,298)
(14)						(62)
(1,135)		(102)	(46)	(8)		(14)
(31,207)	(1,379)		(2,301)		(2,086)	(126,633)
						(76,649)
134,603	54,563	50,458	56,183	29,009	69,775	4,163,596
70	14					1,933
11,406	15,171	26,060	14,676			1,789,769
						17,775
					495	83,479
		99				1,205
						1,721
21,661	6,975	6,633	7,191	3,008		156,424
(82,618)	(11,640)	(12,785)	(30,030)	(12,918)	(6,570)	(1,782,394)
(12,051)	(4,545)	(3,767)	(5,595)	(1,096)	(2,257)	(1,323,063)
	(138)					(177)
(9,761)	(2,883)		(5,611)	(676)		(180,619)
(181)			(3,875)		(2,075)	(79,598)
(71,474)	2,954	16,240	(23,244)	(11,667)	(10,407)	(1,313,545)
55,733	13,353		22,628	57,070	6,126	21,842,345
7,588	2,808	1,040	73	604	223	629,534
(67,349)	(37,109)	(19,916)	(14,402)	(49,944)	(4,402)	(21,648,799)
(4,028)	(20,948)	(18,876)	8,299	7,730	1,947	823,080
(31,482)	(7,641)	5,236	3,897	299	2,536	530,660
176,468	58,280	34,145	14,872	3,195	20,929	3,359,462
3,036				(232)		(3,189)
179,504	58,280	34,145	14,872	2,963	20,929	3,356,273
\$ 148,022	\$ 50,639	\$ 39,381	\$ 18,769	\$ 3,262	\$ 23,465	\$ 3,886,933

State of Texas
Combining Statement of Cash Flows
Enterprise Funds – Colleges and Universities

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (1,988,000)	\$ (915,449)	\$ (270,948)	\$ (275,722)	\$ (257,037)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Amortization and Depreciation	372,830	98,305	29,950	26,035	29,151
Bad Debt Expense	1,423	18	40	332	378
Operating Income and Cash Flow Categories					
Classification Differences	115,229	34,741	4,694	11,790	17,064
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(111,947)	(22,798)	(2,867)	297	(5,890)
(Increase) Decrease in Due From Other Funds		(2,973)			(433)
(Increase) Decrease in Inventories	(4,694)	(2,296)	474	(269)	(24)
(Increase) Decrease in Notes Receivable			580		(1,476)
(Increase) Decrease in Loans and Contracts	(10,078)	(6,238)		(981)	(790)
(Increase) Decrease in Other Assets	(59,357)	131	(42)	634	(81)
(Increase) Decrease in Prepaid Expenses		(6,356)	1,510	(1,779)	(5,048)
(Increase) Decrease in State Appropriations					16
Increase (Decrease) in Payables	26,687	2,653	5,405	14,802	2,394
Increase (Decrease) in Deposits	(3,014)	1,240			138
Increase (Decrease) in Due To Other Funds		2,399			108
Increase (Decrease) in Deferred Revenue	157,375	43,017	12,413	27,870	22,173
Increase (Decrease) in Compensated Absence Liability	41,654	14,686	1,440	2,814	1,165
Increase (Decrease) in Other Liabilities	1,770	(1,750)	(10,792)	(3,122)	227
Total Adjustments	<u>527,878</u>	<u>154,779</u>	<u>42,805</u>	<u>78,423</u>	<u>59,072</u>
Net Cash Provided by Operating Activities	<u><u>\$ (1,460,122)</u></u>	<u><u>\$ (760,670)</u></u>	<u><u>\$ (228,143)</u></u>	<u><u>\$ (197,299)</u></u>	<u><u>\$ (197,965)</u></u>
NON CASH TRANSACTIONS					
Net Change in Fair Value of Investments	\$ (147,642)	\$ (92,241)	\$ 727	\$ (1,053)	\$ (4,219)
Donation of Capital Assets	\$ (22,029)	\$ (1,556)			\$ (3,072)
Borrowing Under Capital Lease Purchase	\$ (616)				
Other	\$ (273)	\$ 6,573			\$ 13,552

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ (162,412)	\$ (59,557)	\$ (54,323)	\$ (54,113)	\$ (30,400)	\$ (74,009)	\$ (4,141,970)
16,350 127	8,316 127	3,554 63	6,461 1,100	3,334 142	5,657	599,943 3,750
11,009	1,809	3,519	3,121	(141)	6,245	209,080
229	1,386	541	(2,697)	(94)	(4,468)	(148,308)
	219	(28)			383	(2,832)
275	(42)	2,325	(132)	(19)	47	(4,355)
(2,721)		(1,539)		(3)		(896)
39					(15)	(22,350)
(13,135)	584	(302)	(663)	119		(58,691)
20,132	(2,733)	(395)	2,702	740	275	72,662
		(291)	1,499			(428)
39,483	5,260	3,660	5,149	1,538	5,547	323,485
	229	223	305			62,516
41	90	499	(73)	11	1,559	(11,540)
<u>71,829</u>	<u>15,347</u>	<u>11,737</u>	<u>16,772</u>	<u>5,627</u>	<u>15,230</u>	<u>999,499</u>
<u>\$ (90,583)</u>	<u>\$ (44,210)</u>	<u>\$ (42,586)</u>	<u>\$ (37,341)</u>	<u>\$ (24,773)</u>	<u>\$ (58,779)</u>	<u>\$ (3,142,471)</u>
\$ (1,010)	\$ 303	\$ 81	\$ (267)	\$ (27)	\$ (245,348)	
				\$ (25)	\$ (27,216)	
					\$ (616)	
				\$ 96	\$ 50	\$ 19,998

Nonmajor Enterprise Funds

The **Texas Workforce Commission Unemployment Trust Fund Accounts** are funds collected under the Old Age and Survivors Insurance Act on deposit with the Treasurer of the United States of America to the credit of this state. It also serves as a clearance fund for the Unemployment Compensation Fund held by the United States Treasury and as a holding account for paying benefits under the Unemployment Compensation Act.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Lottery Commission** accounts for the operation of lottery games for the state. This fund includes both the net proceeds from the lottery and accounts for future installment obligations to prize winners.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the Institutional Division's commissary operations and other miscellaneous revenue.

The **Teacher Retirement System** includes the TRS-ActiveCare Fund which provides health care coverage to employees (and their dependents) of participating public education entities.

The **Texas Prepaid Higher Education Tuition Board** offers a program that allows Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

State of Texas
Combining Statement of Net Assets
Nonmajor Enterprise Funds
August 31, 2004 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ (31,893)	\$ 23,417	\$ 107,627	\$
Securities Lending Collateral				
Restricted:				
Cash and Cash Equivalents	1,207,122	177,149		
Short Term Investments		137,859	170,505	
Loans and Contracts		7,134		
Receivables:				
Taxes	193,827			
Federal Accounts	3,812			
Interest and Dividends	98,283	588	37,935	1,073
Investment Trades		10,904		
Other		68		
Due From Other Funds	3,190			23,017
Inventories		8	5,736	7,293
Prepaid Items			10,888	
Loans and Contracts		176		
Other Current Assets		868		
Total Current Assets	<u>1,484,062</u>	<u>358,171</u>	<u>332,691</u>	<u>31,383</u>
Non-Current Assets:				
Restricted:				
Cash and Cash Equivalents				
Investments		1,043,945	1,323,120	
Receivables				
Loans and Contracts		928,123		
Loans and Contracts		4,590		
Capital Assets:				
Non-Depreciable		3		283
Depreciable		1,350	5,832	4,243
Accumulated Depreciation		(1,091)	(4,794)	(3,354)
Assets Held in Trust				
Other Non-Current Assets	<u>3,845</u>	<u>11,788</u>	<u>1,324,158</u>	<u>1,172</u>
Total Non-Current Assets	<u>3,845</u>	<u>1,988,708</u>	<u>1,656,849</u>	<u>32,555</u>
Total Assets	<u>1,487,907</u>	<u>2,346,879</u>	<u>1,656,849</u>	<u>32,555</u>

* The Teacher Retirement System was previously reported within the Other Nonmajor Enterprise Funds column. The Texas Treasury Safekeeping Trust Company Fund from the prior year is now reported in the Other Nonmajor Enterprise Funds column.

Teacher Retirement System*	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds*	Totals
\$ 274,814	\$ 48,214	\$ 53,490	\$ 475,669
	195,882		195,882
	108,983		1,493,254
			308,364
			7,134
			193,827
			3,812
36,760		143	174,782
345	7,190	6	28,166
	39,372		39,372
		632	700
			26,207
		854	13,891
			10,888
	83,667	11,664	95,507
			868
<u>311,919</u>	<u>483,308</u>	<u>66,789</u>	<u>3,068,323</u>
			6,276
	1,192,356	42	3,559,463
	398,046		398,046
			928,123
			4,590
			735
	2,427	4,340	18,192
	(1,468)	(2,002)	(12,709)
		5,188	5,188
<u>0</u>	<u>1,591,361</u>	<u>14,579</u>	<u>15,633</u>
<u>311,919</u>	<u>2,074,669</u>	<u>81,368</u>	<u>7,992,146</u>

Concluded on the following page

State of Texas
Combining Statement of Net Assets
Nonmajor Enterprise Funds (concluded)

August 31, 2004 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 43,605	\$ 902	\$ 25,835	\$ 5,017
Payroll			1,275	1,242
Investment Trades				
Due To Other Funds			16,250	
Interfund Payable		106		
Deferred Revenue	22,027	10,091		
Obligations/Securities Lending				
Capital Lease Obligations				
Employees' Compensable Leave		477	892	901
Notes and Loans Payable		50,777		
Revenue Bonds Payable	166,380	26,133		
Liabilities Payable From Restricted Assets			235,413	
Other Current Liabilities	6,271	29,786	11,334	
Total Current Liabilities	<u>238,283</u>	<u>118,272</u>	<u>290,999</u>	<u>7,160</u>
Non-Current Liabilities:				
Capital Lease Obligations				
Employees' Compensable Leave		128	474	256
Liabilities Payable From Restricted Assets			1,258,309	
Revenue Bonds Payable	1,164,159	1,880,867		
Assets Held for Others		103,265		
Other Non-Current Liabilities		136,780		
Total Non-Current Liabilities	<u>1,164,159</u>	<u>2,121,040</u>	<u>1,258,783</u>	<u>256</u>
Total Liabilities	<u>1,402,442</u>	<u>2,239,312</u>	<u>1,549,782</u>	<u>7,416</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt		262	1,038	1,172
Restricted for:				
Debt Retirement	192,015	82,716		
Unemployment Trust Funds	1,220,145			
Other			15,898	
Unrestricted	<u>(1,326,695)</u>	<u>24,589</u>	<u>90,131</u>	<u>23,967</u>
Total Net Assets	<u>\$ 85,465</u>	<u>\$ 107,567</u>	<u>\$ 107,067</u>	<u>\$ 25,139</u>

* The Teacher Retirement System was previously reported within the Other Nonmajor Enterprise Funds column. The Texas Treasury Safekeeping Trust Company Fund from the prior year is now reported in the Other Nonmajor Enterprise Funds column.

Teacher Retirement System*	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds*	Totals
\$ 71,505	\$ 1,083	\$ 634	\$ 148,581
		494	3,011
53,105			53,105
97		1,193	17,540
			106
		65	32,183
195,882			195,882
		131	131
43	49	320	2,682
		14,000	64,777
			192,513
111,608			347,021
			47,391
<u>71,548</u>	<u>361,824</u>	<u>16,837</u>	<u>1,104,923</u>
		668	668
	44	232	1,134
1,935,653			3,193,962
			3,045,026
		5,187	108,452
			136,780
<u>0</u>	<u>1,935,697</u>	<u>6,087</u>	<u>6,486,022</u>
<u>71,548</u>	<u>2,297,521</u>	<u>22,924</u>	<u>7,590,945</u>
	959	1,599	5,030
			274,731
			1,220,145
		1,011	16,909
<u>240,371</u>	<u>(223,811)</u>	<u>55,834</u>	<u>(1,115,614)</u>
<u>\$ 240,371</u>	<u>\$ (222,852)</u>	<u>\$ 58,444</u>	<u>\$ 401,201</u>

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
OPERATING REVENUES				
Lottery Collections	\$	\$	\$3,488,334	\$
Auxiliary Enterprises - Pledged				74,855
Unemployment Taxes	1,783,807			
Other Sales of Goods and Services				
Interest and Investment Income		5,373		
Federal Revenue	357,590			
Premium Revenue				
Other Revenues	178,154	12,317	606	212
Total Operating Revenues	<u>2,319,551</u>	<u>17,690</u>	<u>3,488,940</u>	<u>75,067</u>
OPERATING EXPENSES				
Cost of Goods Sold				51,967
Salaries and Wages	6,374	12,577	11,871	
Payroll Related Costs	1,673	2,991	3,411	
Professional Fees and Services	1,135	4,716	5	
Travel	207	329	31	
Materials and Supplies	198	2,591	410	
Communication and Utilities	108	480	19	
Repairs and Maintenance	144	477	154	
Rentals and Leases	924	6,076	727	
Printing and Reproduction	15	16,845	5	
Depreciation and Amortization	639	736	200	
Unemployment Benefit Payments	2,177,870			
Bad Debt Expense			411	
Interest Expense		99,721	1	
Lottery Prize Payments			2,245,200	
Employee/Participant Benefit Payments				
Other Expenses	2,605	132,588	27	
Total Operating Expenses	<u>2,177,870</u>	<u>113,743</u>	<u>2,426,018</u>	<u>68,828</u>
Operating Income (Loss)	<u>141,681</u>	<u>(96,053)</u>	<u>1,062,922</u>	<u>6,239</u>

* The Teacher Retirement System was previously reported within the Other Nonmajor Enterprise Funds column. The Texas Treasury Safekeeping Trust Company Fund from the prior year is now reported in the Other Nonmajor Enterprise Funds column.

Teacher Retirement System*	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds*	Totals
\$	\$	\$	\$
			3,488,334
			74,855
			1,783,807
	21,711	7,712	29,423
		540	5,913
			357,590
758,255			758,255
	2,167	45,927	239,383
<u>758,255</u>	<u>23,878</u>	<u>54,179</u>	<u>6,737,560</u>
409	1,005	1,550	53,517
98	224	6,064	38,300
		1,456	9,853
309	4,187	693	11,045
5	5	35	612
15	119	376	3,709
1	73	149	830
	330	262	1,367
74	28	745	8,574
4	44	192	17,105
	491	376	2,442
			2,177,870
			411
			99,723
			2,245,200
614,774	122,420		737,194
3	2,208		139,900
<u>615,692</u>	<u>131,134</u>	<u>14,367</u>	<u>5,547,652</u>
<u>142,563</u>	<u>(107,256)</u>	<u>39,812</u>	<u>1,189,908</u>

Concluded on the following page

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	\$ 48,380	\$ 97,230	\$ 8,509	\$
Interest and Investment Income				
Loan Premium and Fees on Securities Lending				
Investing Activities Expense				
Interest Expense	(24,255)	(2,435)		
Borrower Rebates and Agent Fees				
(Loss) on Sale of Capital Assets				(1)
Settlement of Claims				4
Claims and Judgments				
Other Revenues				
Other Expenses	(971)			
Total Nonoperating Revenues (Expenses)	<u>23,154</u>	<u>94,795</u>	<u>8,509</u>	<u>3</u>
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers	<u>164,835</u>	<u>(1,258)</u>	<u>1,071,431</u>	<u>6,242</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS AND TRANSFERS				
Transfer In	2,195			3,690
Transfer Out		(1)	(1,051,041)	(3,331)
Total Capital Contributions, Endowments, Extraordinary Items and Transfers	<u>2,195</u>	<u>(1)</u>	<u>(1,051,041)</u>	<u>359</u>
Change in Net Assets	<u>167,030</u>	<u>(1,259)</u>	<u>20,390</u>	<u>6,601</u>
Net Assets, September 1, 2003	(81,565)	108,826	86,845	18,790
Restatements			(168)	(252)
Net Assets, September 1, 2003, as Restated	<u>(81,565)</u>	<u>108,826</u>	<u>86,677</u>	<u>18,538</u>
Net Assets, August 31, 2004	<u>\$ 85,465</u>	<u>\$ 107,567</u>	<u>\$ 107,067</u>	<u>\$ 25,139</u>

* The Teacher Retirement System was previously reported within the Other Nonmajor Enterprise Funds column. The Texas Treasury Safekeeping Trust Company Fund from the prior year is now reported in the Other Nonmajor Enterprise Funds column.

Teacher Retirement System*	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds*	Totals
\$ 3,641	\$ 120,207	\$ 10	\$ 10
	1,900		1,900
	(16)		(16)
		(204)	(26,894)
	(1,604)		(1,604)
		(96)	(97)
			4
24		(12)	(12)
			24
<u>3,665</u>	<u>120,487</u>	<u>3</u>	<u>250,616</u>
<u>146,228</u>	<u>13,231</u>	<u>39,815</u>	<u>1,440,524</u>
		7,667	13,552
		(2,009)	(1,056,382)
0	0	5,658	(1,042,830)
<u>146,228</u>	<u>13,231</u>	<u>45,473</u>	<u>397,694</u>
136,143	(236,083)	31,492	64,448
(42,000)		(18,521)	(60,941)
<u>94,143</u>	<u>(236,083)</u>	<u>12,971</u>	<u>3,507</u>
<u>\$ 240,371</u>	<u>\$ (222,852)</u>	<u>\$ 58,444</u>	<u>\$ 401,201</u>

State of Texas
Combining Statement of Cash Flows –
Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 1,764,520	\$	\$ 3,476,849	\$ 74,593
Proceeds from Research Grants and Contracts	377,460			
Proceeds from Loan Programs		205,314		
Proceeds from Other Revenues	183,586	11,092		212
Payments to Suppliers for Goods and Services		(6,333)	(336,320)	(52,123)
Payments to Employees		(8,094)	(15,527)	(15,282)
Payments for Loans Provided		(262,977)		
Payments for Other Expenses	(2,293,512)		(2,068,238)	(1,284)
Net Cash Provided by Operating Activities	<u>32,054</u>	<u>(60,998)</u>	<u>1,056,764</u>	<u>6,116</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance	1,399,929	605,884		
Proceeds from Transfers from Other Funds	7,211,212	11,039		3,690
Proceeds from Other Financing Activities	145,894		9,412	
Payments of Principal on Debt Issuance	(69,389)	(439,711)		
Payments of Interest	(20,443)	(99,257)		
Payments of Other Costs of Debt Issuance				
Payments for Transfers to Other Funds	(7,207,455)	(11,225)	(1,044,222)	(9,626)
Payments for Other Uses	(296,580)		(161,337)	
Net Cash Provided by Noncapital Financing Activities	<u>1,163,168</u>	<u>66,730</u>	<u>(1,196,147)</u>	<u>(5,936)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Capital Assets				
Payments for Additions to Capital Assets		(48)	(684)	
Payments of Interest on Debt Issuance				
Payments of Other Costs of Debt Issuance		(2,389)		
Net Cash Provided by Capital and Related Financing Activities	<u>0</u>	<u>(2,437)</u>	<u>(684)</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments		1,212,203	161,337	29,340
Proceeds from Interest and Investment Income	38,660	54,096	884	143
Payments to Acquire Investments		(1,259,493)	(9,412)	(29,663)
Net Cash Provided by Investing Activities	<u>38,660</u>	<u>6,806</u>	<u>152,809</u>	<u>(180)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,233,882</u>	<u>10,101</u>	<u>12,742</u>	<u>0</u>
Cash and Cash Equivalents, September 1, 2003	(58,653)	190,465	94,885	
Restatements				
Cash and Cash Equivalents, September 1, 2003, as Restated	<u>(58,653)</u>	<u>190,465</u>	<u>94,885</u>	<u>0</u>
Cash and Cash Equivalents, August 31, 2004	<u>\$ 1,175,229</u>	<u>\$ 200,566</u>	<u>\$ 107,627</u>	<u>\$ 0</u>

* The Teacher Retirement System was previously reported within the Other Nonmajor Enterprise Funds column. The Texas Treasury Safekeeping Trust Company Fund from the prior year is now reported in the Other Nonmajor Enterprise Funds column.

Teacher Retirement System*	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds*	Totals
\$ 741,553	\$ 139,977	\$ 12,261	\$ 6,209,753
			377,460
		1,444	206,758
	30	41,300	236,220
(634,611)	(8,362)	(1,523)	(1,039,272)
		(7,124)	(46,027)
		(2,185)	(265,162)
(1,295)	(41,479)	(4,905)	(4,410,713)
<u>105,647</u>	<u>90,166</u>	<u>39,268</u>	<u>1,269,017</u>
		3,689	2,009,502
		17,192	7,243,133
		10	155,316
		(742)	(509,842)
			(119,700)
		(20)	(20)
		(10,133)	(8,282,661)
		(3)	(457,920)
<u>0</u>	<u>0</u>	<u>9,993</u>	<u>37,808</u>
		8	8
	(42)	(263)	(1,037)
		(158)	(158)
			(2,389)
<u>0</u>	<u>(42)</u>	<u>(413)</u>	<u>(3,576)</u>
3,296	11,000		1,417,176
	29,800	303	123,886
	(226,264)	(42)	(1,524,874)
<u>3,296</u>	<u>(185,464)</u>	<u>261</u>	<u>16,188</u>
108,943	(95,340)	49,109	1,319,437
207,823	252,537	17,511	704,568
(41,952)		(6,854)	(48,806)
<u>165,871</u>	<u>252,537</u>	<u>10,657</u>	<u>655,762</u>
<u>\$ 274,814</u>	<u>\$ 157,197</u>	<u>\$ 59,766</u>	<u>\$ 1,975,199</u>

State of Texas
Combining Statement of Cash Flows –
Nonmajor Enterprise Funds

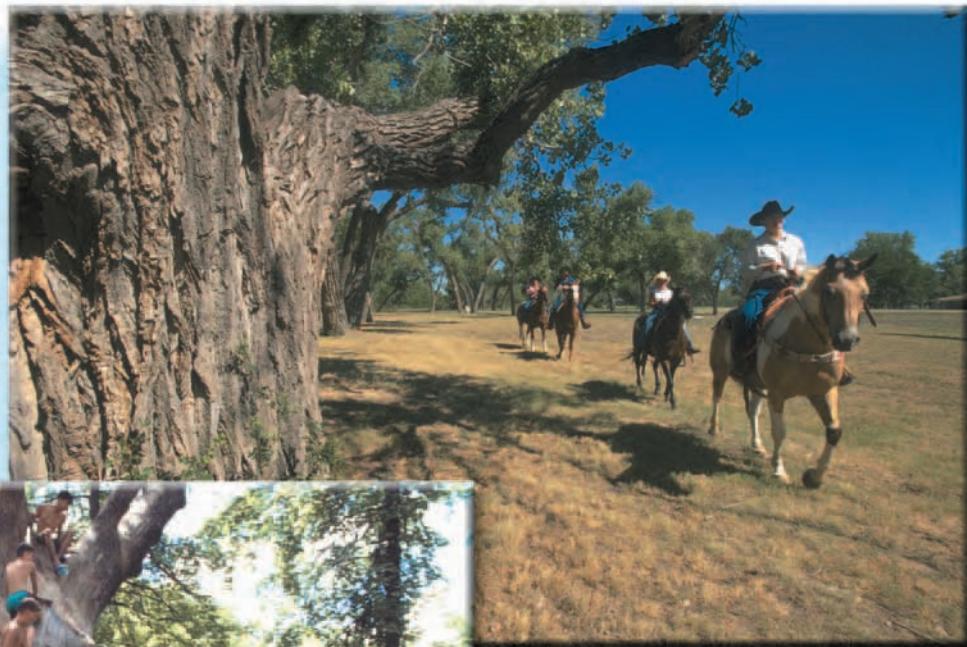
For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 141,681	\$ (96,053)	\$ 1,062,922	\$ 6,239
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Amortization and Depreciation		639	736	200
Bad Debt Expense			411	
Operating Income and Cash Flow Categories Classification Differences		135,123		
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(54,435)	(1,061)	(12,093)	(262)
(Increase) Decrease in Due From Other Funds			1,287	
(Increase) Decrease in Inventories				(818)
(Increase) Decrease in Loans and Contracts		(168,317)		
(Increase) Decrease in Other Assets		34		
(Increase) Decrease in Prepaid Expenses			1,556	
Increase (Decrease) in Payables	(55,930)	391	1,945	757
Increase (Decrease) in Due To Other Funds				
Increase (Decrease) in Deferred Revenue	738	(471)		
Increase (Decrease) in Compensated Absence Liability				
Increase (Decrease) in Benefits Payable				
Increase (Decrease) in Other Liabilities		68,717		
Total Adjustments	<u>(109,627)</u>	<u>35,055</u>	<u>(6,158)</u>	<u>(123)</u>
Net Cash Provided by Operating Activities	<u>\$ 32,054</u>	<u>\$ (60,998)</u>	<u>\$ 1,056,764</u>	<u>\$ 6,116</u>
NON CASH TRANSACTIONS				
Net Change in Fair Value of Investments		\$ (5,373)	\$ (8,508)	

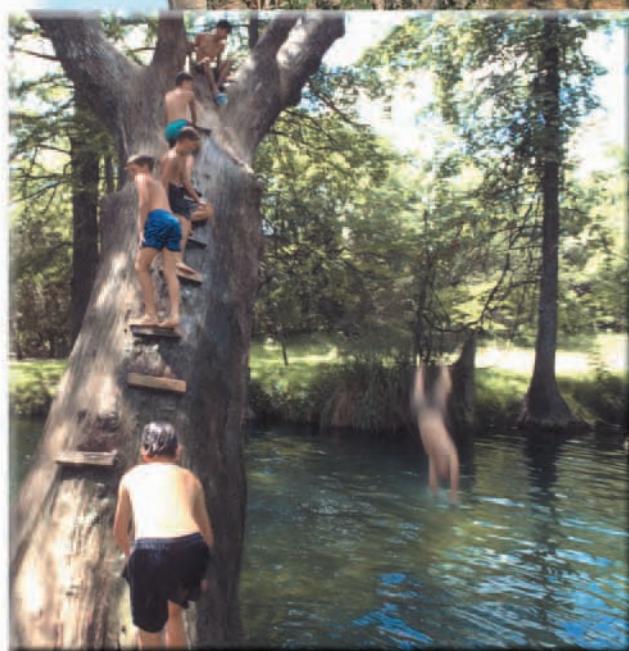
* The Teacher Retirement System was previously reported within the Other Nonmajor Enterprise Funds column. The Texas Treasury Safekeeping Trust Company Fund from the prior year is now reported in the Other Nonmajor Enterprise Funds column.

Teacher Retirement System*	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds*	Totals
\$ 142,563	\$ (107,256)	\$ 39,812	\$ 1,189,908
	491	376	2,442
			411
	39	(4,660)	130,502
(16,907)	116,136	(22)	31,356
		(37)	(37)
		(11)	458
		(14,257)	(182,574)
			34
(20,009)		8	1,564
		4,274	(68,572)
	14	(62)	(48)
		22	289
	4	(69)	(65)
	80,738		80,738
(36,916)	<u>197,422</u>	<u>13,894</u>	<u>82,611</u>
			<u>79,109</u>
<u>\$ 105,647</u>	<u>\$ 90,166</u>	<u>\$ 39,268</u>	<u>\$ 1,269,017</u>
	\$ (87,865)		\$ (101,746)

Fiduciary Funds



*Boys Ranch,
in Tascosa.*



*Fun at the “Blue Hole”
on Cypress Creek in
Wimberley.*

Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who have completed 20 or more years of service or have become occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters' Relief and Retirement Fund** accounts for the accumulation of resources for pension, death, and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state's General Revenue Fund for annuity and refund payments to eligible judicial employees.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income, and fees. The State of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The Fund also receives appropriations by the state for the administration of the cafeteria plan.

The **TexaSaver Administrative Trust Fund** receives deferrals, purchases qualified investments, and pays expenses associated with administration of the deferred compensation plan.

State of Texas
Combining Statement of Fiduciary Net Assets –
Pension and Other Employee Benefit Trust Funds

August 31, 2004 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,007,815	\$ 19,681	\$ 1,058	\$ 437
Securities Lending Collateral	10,829,078	3,109,360	105,138	22,189
Investments	84,221,329	19,855,440	670,837	142,871
Receivables:				
Interest and Dividends	267,376	1,092	40	8
Investment Trades	1,121,928	60,138	2,033	429
Accounts	172,570	44,534		917
Other	1,059			
Due From Other Funds	524	4,515		
Properties, at Cost, net of Accumulated				
Depreciation	31,380	6,909		
Other Assets		32		
Total Assets	97,653,059	23,101,701	779,106	166,851
LIABILITIES				
Payables:				
Accounts	515,503	14,588	197	28
Payroll	59	1,525		
Investment Trades	1,983,555	1,175,962	39,763	8,392
Deferred Revenue	32,131	575		
Due To Other Funds	87,436	524	196	42
Employees' Compensable Leave	2,315	1,429		
Obligations/Securities Lending	10,829,078	3,109,360	105,138	22,189
Total Liabilities	13,450,077	4,303,963	145,294	30,651
NET ASSETS				
Net Assets Held in Trust for Pension Benefits	<u>\$ 84,202,982</u>	<u>\$ 18,797,738</u>	<u>\$ 633,812</u>	<u>\$ 136,200</u>

Fire Fighters' Relief and Retirement Fund	Judicial Retirement System - Plan One Fund	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$ 529	\$	\$ 4,769	\$ 3,068	\$ 996	\$ 1,038,353
35,837		251,825			14,065,765
22		1	5	1	268,545
91			3,532		1,184,528
1	241		2		221,644
7			462		1,059
36,487	241	256,595	7,069	997	5,283
					38,296
					494
					122,002,106
160	241	258	4,979		535,954
20					1,604
249		31	29	30	3,207,672
28					32,955
457	241	289	5,008	30	88,288
					3,772
					14,065,765
\$ 36,030	\$ 0	\$ 256,306	\$ 2,061	\$ 967	\$ 104,066,096

State of Texas
Combining Statement of Changes in Fiduciary Net Assets –
Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund
ADDITIONS				
Contributions:				
Member Contributions	\$ 1,721,506	\$ 306,755	\$	\$ 2,923
State Contributions		279,308		8,205
Transfers In of Contributions	1,242,239			
Other Contributions	192,396			
Total Contributions	<u>3,156,141</u>	<u>586,063</u>	<u>0</u>	<u>11,128</u>
Investment Income:				
From Investing Activities:				
Net Appreciation in Fair Value of Investments	7,024,439	1,478,547	50,386	9,771
Interest and Investment Income	2,109,403	521,357	17,703	3,580
Total Investing Income	<u>9,133,842</u>	<u>1,999,904</u>	<u>68,089</u>	<u>13,351</u>
Less Investing Activities Expense	16,253	13,475	464	76
Net Income from Investing Activities	<u>9,117,589</u>	<u>1,986,429</u>	<u>67,625</u>	<u>13,275</u>
From Securities Lending Activities:				
Securities Lending Income	139,933	35,991	1,222	248
Less Securities Lending Expense:				
Borrower Rebates	106,673	25,031	850	172
Management Fees	4,989	2,686	91	19
Net Income from Securities Lending	<u>28,271</u>	<u>8,274</u>	<u>281</u>	<u>57</u>
Total Net Investment Income	<u>9,145,860</u>	<u>1,994,703</u>	<u>67,906</u>	<u>13,332</u>
Other Additions:				
Other Revenue		560	2	1
Transfer In	5,667	38,068		
Total Other Additions	<u>5,667</u>	<u>38,628</u>	<u>2</u>	<u>1</u>
Total Additions	<u>12,307,668</u>	<u>2,619,394</u>	<u>67,908</u>	<u>24,461</u>
DEDUCTIONS				
Benefits	5,454,359	1,186,662	27,559	2,770
Refunds of Contributions	220,397	83,779		303
Transfers Out of Contributions	38,068	6,120		
Administrative Expenses	24,864	12,448	630	273
Total Deductions	<u>5,737,688</u>	<u>1,289,009</u>	<u>28,189</u>	<u>3,346</u>
INCREASE IN NET ASSETS				
	<u>6,569,980</u>	<u>1,330,385</u>	<u>39,719</u>	<u>21,115</u>
NET ASSETS				
Net Assets, September 1, 2003	<u>77,633,002</u>	<u>17,467,353</u>	<u>594,093</u>	<u>115,085</u>
Net Assets, August 31, 2004	<u>\$ 84,202,982</u>	<u>\$ 18,797,738</u>	<u>\$ 633,812</u>	<u>\$ 136,200</u>

Fire Fighters' Relief and Retirement Fund	Judicial Retirement System - Plan One Fund	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$ 2,369	\$ 0	\$ 93,473	\$ 43,372	\$ 0	\$ 2,170,398 287,513 1,242,239 194,193 3,894,343
<u>3</u>	<u>0</u>	<u>173</u>	<u>468</u>	<u>1,153</u>	
<u>2,372</u>	<u>0</u>	<u>93,646</u>	<u>43,840</u>	<u>1,153</u>	
1,722	0	16,432	25	4	8,581,297 2,671,654 11,252,951 30,493 11,222,458
2,038	0	17,544	25	4	
3,760	0	33,976	25	4	
225	0	33,976	25	4	
3,535	0	33,976	25	4	
					177,394
					132,726 7,785 36,883
0	0	0	0	0	
3,535	0	33,976	25	4	11,259,341
					756
		4	14	175	66,911
	22,742	9	425	175	67,667
0	22,742	13	439	175	
5,907	22,742	127,635	44,304	1,332	15,221,351
2,108	22,621	109,527	42,886		6,848,492 304,480 44,188 41,088
	1				
661	120	390	1,336	366	
2,769	22,742	109,917	44,222	366	7,238,248
3,138	0	17,718	82	966	7,983,103
32,892	0	238,588	1,979	1	96,082,993
\$ 36,030	\$ 0	\$ 256,306	\$ 2,061	\$ 967	\$ 104,066,096

External Investment Trust Funds

The **Texas Government Investment Pool (TexPool) Trust Fund** is a local government investment pool administered by the Texas Treasury Safekeeping Trust Company - Comptroller's office. The investor base consists of cities, counties, school districts, institutions of higher education, special districts, and other public entities of Texas.

The **Texas Treasury Safekeeping Trust Company Municipal Utility District Fund** is an investment pool available for municipal utility districts and is administered by the Texas Treasury Safekeeping Trust Company - Comptroller's office. The function of this fund is to invest moneys on behalf of these legally separate entities.

State of Texas
Combining Statement of Fiduciary Net Assets –
External Investment Trust Funds

August 31, 2004 (Amounts in Thousands)

	Texas Government Investment Pool (TexPool) Trust Fund	Texas Treasury Safekeeping Trust Company Municipal Utility District Fund	Totals
ASSETS			
Cash and Cash Equivalents	\$ 1	\$ 725	\$ 1
Investments	10,229,669	725	10,230,394
Interest and Dividends Receivable	9,743	0	9,743
Total Assets	<u>10,239,413</u>	<u>725</u>	<u>10,240,138</u>
LIABILITIES			
Payables:			
Accounts	14,669	0	14,669
Total Liabilities	<u>14,669</u>	<u>0</u>	<u>14,669</u>
NET ASSETS			
Net Assets Held in Trust for Pool Participants	<u>\$10,224,744</u>	<u>\$ 725</u>	<u>\$10,225,469</u>

State of Texas
Combining Statement of Changes in Fiduciary Net Assets –
External Investment Trust Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Texas Government Investment Pool (TexPool) Trust Fund	Texas Treasury Safekeeping Trust Company Municipal Utility District Fund	Totals
ADDITIONS			
Investment Income:			
From Investing Activities:			
Interest and Investment Income	\$ 143,960	\$ 7	\$ 143,967
Total Investing Income	143,960	7	143,967
Less Investing Activities Expense	6,364		6,364
Net Income from Investing Activities	<u>137,596</u>	<u>7</u>	<u>137,603</u>
Capital Share and Individual Account Transactions:			
Net Decrease in Participant Investments	(1,047,258)	(3)	(1,047,261)
INCREASE (DECREASE) IN NET ASSETS	(909,662)	4	(909,658)
NET ASSETS			
Net Assets, September 1, 2003	11,179,638	721	11,180,359
Restatements	(45,232)		(45,232)
Net Assets, September 1, 2003, as Restated	<u>11,134,406</u>	<u>721</u>	<u>11,135,127</u>
Net Assets, August 31, 2004	<u><u>\$10,224,744</u></u>	<u><u>\$ 725</u></u>	<u><u>\$10,225,469</u></u>

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of political subdivisions.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity, and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the State of Texas.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

State of Texas
Combining Statement of Fiduciary Net Assets –
Private-Purpose Trust Funds

August 31, 2004 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Retired School Employees Group Insurance Trust	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Other Private- Purpose Trust Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$ 4	\$ 323,934	\$ 75,489	\$ 306,824	\$ 11,210	\$ 717,461
Restricted Cash and Cash Equivalents					278	278
Securities Lending Collateral	145,396					145,396
Investments	1,827,532		34,915		126,895	1,989,342
Receivables:						
Federal					183	183
Interest and Dividends	5,402				18	5,420
Investment Trades	4,619				58	4,677
Accounts		41,177	87		6	41,270
Due From Other Funds		7,836				7,836
Interfund Receivable					26	26
Properties, at Cost, net of Accumulated						
Depreciation					1,152	1,152
Other Assets			91,417		2	91,419
Total Assets	1,982,953	372,947	201,908	306,824	139,828	3,004,460
LIABILITIES						
Payables:						
Accounts	773	20,492			1,128	22,393
Payroll		110,000				110,000
Investment Trades	13,879				48	13,927
Deferred Revenue					70	70
Due To Other Funds		4,106				4,106
Interfund Payable			102			102
Employees' Compensable Leave		64				64
Obligations/Securities Lending	145,396					145,396
Funds Held for Others			91,417			91,417
Total Liabilities	160,048	134,662	91,519	0	1,246	387,475
NET ASSETS						
Net Assets Held in Trust for:						
Employees' Post-Employment						
Healthcare Benefits		238,285				238,285
Individuals, Organizations, and						
Other Governments	1,822,905		110,389	306,824	138,582	2,378,700
Total Net Assets	\$ 1,822,905	\$ 238,285	\$ 110,389	\$ 306,824	\$ 138,582	\$ 2,616,985

State of Texas
Combining Statement of Changes in Fiduciary Net Assets –
Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Retired School Employees Group Insurance Trust	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Other Private- Purpose Trust Funds	Totals
ADDITIONS						
Contributions:						
Transfers In of Contributions	\$ 0	\$ 735,941	\$ 0	\$ 0	\$ 0	\$ 735,941
Total Contributions						
Investment Income:						
From Investing Activities:						
Net Appreciation in Fair Value of Investments	156,816	4,804	1,203	3,326	4,155	160,971
Interest and Investment Income	43,861				2,067	55,261
Total Investing Income	200,677	4,804	1,203	3,326	6,222	216,232
Less Investing Activities Expense	1,609				258	1,867
Total Net Investment Income	199,068	4,804	1,203	3,326	5,964	214,365
Other Additions:						
Federal Revenue					1,539	1,539
Contributions to Employee Benefit Funds		427,307				427,307
Settlement of Claims					33	33
Other Revenue		46	18,368		149,232	167,646
Transfer In			112			112
Total Other Additions	0	427,353	18,480	0	150,804	596,637
Total Additions	199,068	1,168,098	19,683	3,326	156,768	1,546,943
DEDUCTIONS						
Benefits		605,270			4,063	609,333
Transfer Out			102	1,000	66	1,168
Intergovernmental Payments	28,516	280,701			1,539	310,756
Administrative Expenses	5,285	2,875	27,176	61	100,289	135,686
Total Deductions	33,801	888,846	27,278	1,061	105,957	1,056,943
INCREASE (DECREASE) IN NET ASSETS	165,267	279,252	(7,595)	2,265	50,811	490,000
NET ASSETS						
Net Assets, September 1, 2003	1,657,815	(82,967)	117,984	304,559	87,213	2,084,604
Restatements	(177)	42,000			558	42,381
Net Assets, September 1, 2003, as Restated	1,657,638	(40,967)	117,984	304,559	87,771	2,126,985
Net Assets, August 31, 2004	\$ 1,822,905	\$ 238,285	\$ 110,389	\$ 306,824	\$ 138,582	\$ 2,616,985

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident, and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA), and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority, and special purpose district authorizing the collection.

State of Texas
Combining Statement of Fiduciary Net Assets –
Agency Funds

August 31, 2004 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident, and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA, and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$ 124	\$ 312	\$ 22,493	\$ 549,082	\$ 74,172	\$ 646,183
Investments	956,970				172,440	1,129,410
Receivables:						
Other Intergovernmental					1,263	1,263
Interest and Dividends	8,807		27		3	8,837
Accounts					79,425	79,425
Other					43	43
Interfund Receivable					107	107
Other Assets	_____	839,361	678,569	_____	73,542	1,591,472
Total Assets	<u>\$ 965,901</u>	<u>\$ 839,673</u>	<u>\$ 701,089</u>	<u>\$ 549,082</u>	<u>\$ 400,995</u>	<u>\$ 3,456,740</u>
LIABILITIES						
Payables:						
Accounts	\$	\$	\$	\$	10,514	\$ 10,514
Other Intergovernmental				549,082	2,395	551,477
Due To Other Funds					5,310	5,310
Funds Held for Others	<u>965,901</u>	<u>839,673</u>	<u>701,089</u>		<u>382,776</u>	<u>2,889,439</u>
Total Liabilities	<u>\$ 965,901</u>	<u>\$ 839,673</u>	<u>\$ 701,089</u>	<u>\$ 549,082</u>	<u>\$ 400,995</u>	<u>\$ 3,456,740</u>

State of Texas
Combining Statement of Changes in Assets and Liabilities –
Agency Funds

August 31, 2004 (Amounts in Thousands)

	Beginning Balance September 1, 2003	Additions	Deductions	Ending Balance August 31, 2004
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	\$ 40	\$ 124	\$ 40	\$ 124
Investments	1,268,037	1,268,037	1,579,104	956,970
Interest and Dividends Receivable	21,080	21,080	33,353	8,807
Total Assets	<u>\$ 1,289,157</u>	<u>\$ 1,289,241</u>	<u>\$ 1,612,497</u>	<u>\$ 965,901</u>
LIABILITIES				
Funds Held for Others	\$ 1,289,157	\$ 1,289,157	\$ 1,612,413	\$ 965,901
Total Liabilities	<u>\$ 1,289,157</u>	<u>\$ 1,289,157</u>	<u>\$ 1,612,413</u>	<u>\$ 965,901</u>
Life, Health, Accident, and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 312	\$ 337	\$ 337	\$ 312
Other Assets	940,805	839,361	940,805	839,361
Total Assets	<u>\$ 941,117</u>	<u>\$ 839,698</u>	<u>\$ 941,142</u>	<u>\$ 839,673</u>
LIABILITIES				
Funds Held for Others	\$ 941,117	\$ 839,698	\$ 941,142	\$ 839,673
Total Liabilities	<u>\$ 941,117</u>	<u>\$ 839,698</u>	<u>\$ 941,142</u>	<u>\$ 839,673</u>
Texas Workers' Compensation Self Insurance Fund				
ASSETS				
Cash and Cash Equivalents	\$ 7,460	\$ 26,793	\$ 11,760	\$ 22,493
Interest and Dividends Receivable	12	27	12	27
Accounts Receivable		27		27
Other Assets	619,254	98,640	39,325	678,569
Total Assets	<u>\$ 626,726</u>	<u>\$ 125,487</u>	<u>\$ 51,124</u>	<u>\$ 701,089</u>
LIABILITIES				
Accounts Payable	\$ 4,320	\$ 4,320	\$ 4,320	\$ 4,320
Funds Held for Others	626,726	125,460	51,097	701,089
Total Liabilities	<u>\$ 626,726</u>	<u>\$ 129,780</u>	<u>\$ 55,417</u>	<u>\$ 701,089</u>
City, County, MTA, and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 504,233	\$ 5,200,788	\$ 5,155,939	\$ 549,082
Total Assets	<u>\$ 504,233</u>	<u>\$ 5,200,788</u>	<u>\$ 5,155,939</u>	<u>\$ 549,082</u>
LIABILITIES				
Payables:				
Accounts	\$ 4,274,002	\$ 4,274,002	\$ 4,274,002	\$ 4,274,002
Other Intergovernmental	504,233	549,059	504,210	549,082
Total Liabilities	<u>\$ 504,233</u>	<u>\$ 4,823,061</u>	<u>\$ 4,778,212</u>	<u>\$ 549,082</u>

Concluded on the following page

State of Texas
Combining Statement of Changes in Assets and Liabilities –
Agency Funds (concluded)

August 31, 2004 (Amounts in Thousands)

	Beginning Balance September 1, 2003	Additions	Deductions	Ending Balance August 31, 2004
Other Agency Funds*				
ASSETS				
Cash and Cash Equivalents	\$ 79,668	\$ 6,278,563	\$ 6,284,059	\$ 74,172
Investments	93,853	79,759	1,172	172,440
Receivables:				
Other Intergovernmental	1,326		63	1,263
Interest and Dividends	10	8	15	3
Accounts	63,205	181,720	165,500	79,425
Other	27	16		43
Interfund Receivable		6,015	5,908	107
Due From Other Funds	32	2,586	2,618	
Other Assets	75,383	2,815	4,656	73,542
Total Assets	<u>\$ 313,504</u>	<u>\$ 6,551,482</u>	<u>\$ 6,463,991</u>	<u>\$ 400,995</u>
LIABILITIES				
Payables:				
Accounts	\$ 10,050	\$ 1,771,167	\$ 1,770,703	\$ 10,514
Other Intergovernmental	2,782		387	2,395
Due To Other Funds	6,307	11,248	12,245	5,310
Deferred Revenues		238	238	
Interfund Payable	36	42	78	
Funds Held for Others	294,329	11,823,072	11,734,625	382,776
Total Liabilities	<u>\$ 313,504</u>	<u>\$ 13,605,767</u>	<u>\$ 13,518,276</u>	<u>\$ 400,995</u>
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 591,713	\$ 11,506,605	\$ 11,452,135	\$ 646,183
Investments	1,361,890	1,347,796	1,580,276	1,129,410
Receivables:				
Other Intergovernmental	1,326		63	1,263
Interest and Dividends	21,102	21,115	33,380	8,837
Accounts	63,205	181,747	165,527	79,425
Other	27	16		43
Due From Other Funds	32	2,586	2,618	
Interfund Receivable		6,015	5,908	107
Other Assets	1,635,442	940,816	984,786	1,591,472
Total Assets	<u>\$ 3,674,737</u>	<u>\$ 14,006,696</u>	<u>\$ 14,224,693</u>	<u>\$ 3,456,740</u>
LIABILITIES				
Payables:				
Accounts	\$ 10,050	\$ 6,049,489	\$ 6,049,025	\$ 10,514
Other Intergovernmental	507,015	549,059	504,597	551,477
Due To Other Funds	6,307	11,248	12,245	5,310
Deferred Revenues		238	238	
Interfund Payable	36	42	78	
Funds Held for Others	3,151,329	14,077,387	14,339,277	2,889,439
Total Liabilities	<u>\$ 3,674,737</u>	<u>\$ 20,687,463</u>	<u>\$ 20,905,460</u>	<u>\$ 3,456,740</u>

* Some funds previously reported within the Other Agency Funds section have been reclassified to Governmental Funds in the current year.

Discretely Presented Component Units



*A good time on the
Riverwalk in San Antonio.*



Texans enjoying the Rodeo.

Discretely Presented Component Units

There are sixteen discretely presented component units that are considered material to the state. Details regarding each component unit are included in Note 19. A Statement of Net Assets and a Statement of Activities has been prepared to report the breakdown of the following discretely presented component units.

State Bar of Texas

Texas Agricultural Finance Authority

Texas On-Site Wastewater Treatment Research Council

Texas Appraiser Licensing and Certification Board

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.

Texas Guaranteed Student Loan Corporation

Texas Boll Weevil Eradication Foundation, Inc.

Texas Water Resources Finance Authority

Texas Small Business Industrial Development Corporation

Texas Economic Development Corporation

U.T. Southwestern Moncrief Cancer Center

Texas Universities Health Plan, Inc.

Surplus Lines Stamping Office of Texas

Texas Health Reinsurance System

Texas Health Insurance Risk Pool

Texas State Affordable Housing Corporation

State of Texas Combining Statement of Net Assets – Component Units

August 31, 2004 (Amounts in Thousands)*

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 12,158	\$ 19,473	\$	\$	\$ 3	\$ 16,100
Investments	13,167					
Restricted:						
Loans and Contracts						
Receivables:						
Federal						13,555
Intergovernmental						
Accounts	679					
Interest and Dividends	912	113				4,015
Gifts						
Other		2				
Due From Primary Government			1,161		67	
Inventories	575				2	
Prepaid Items	822	59				
Loans and Contracts		8,412				
Other Current Assets						1,456
Total Current Assets	28,313	28,059	1,161	69	3	35,126
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Receivables						
Loans and Contracts						
Loans and Contracts						383,119
Investments						
Capital Assets:						
Non-Depreciable	282	131				3,315
Depreciable	13,166			9		42,334
Accumulated Depreciation	(10,315)			(9)		(6,108)
Other Non-Current Assets						1,973
Total Non-Current Assets	3,133	131	0	0	0	424,633
Total Assets	31,446	28,190	1,161	69	3	459,759

Continued on the following page

State of Texas Combining Statement of Net Assets – Component Units (continued)

August 31, 2004 (Amounts in Thousands)*

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts Payable	\$ 2,594	\$ 76	\$ 9	\$ 18	\$ 19	\$ 11,065
Federal Other						9,565
Due To Primary Government	6,058					
Deferred Revenue	179					
Capital Lease Obligations	769	2		11		1,304
Employees' Compensable Leave						
Notes and Loans Payable		29,941				1,408
Revenue Bonds Payable						
Other Current Liabilities	119	10				
Total Current Liabilities	<u>9,719</u>	<u>30,029</u>	<u>9</u>	<u>48</u>	<u>0</u>	<u>23,342</u>
Non-Current Liabilities:						
Capital Lease Obligations	162					
Employees' Compensable Leave	239	4		5		561
Notes and Loans Payable						12,640
Liabilities Payable From Restricted Assets						210,374
Revenue Bonds Payable						
Other Non-Current Liabilities						73
Total Non-Current Liabilities	<u>401</u>	<u>4</u>	<u>0</u>	<u>5</u>	<u>0</u>	<u>223,648</u>
Total Liabilities	<u>10,120</u>	<u>30,033</u>	<u>9</u>	<u>53</u>	<u>0</u>	<u>246,990</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	20					25,495
Restricted for:						
Education						16,586
Other						
Unrestricted	21,306	(1,843)	1,152	16	3	170,688
Total Net Assets	<u>\$ 21,326</u>	<u>\$ (1,843)</u>	<u>\$ 1,152</u>	<u>\$ 16</u>	<u>\$ 3</u>	<u>\$ 212,769</u>

Continued on the following page

* Amounts at August 31, 2004, unless otherwise indicated in Note 19.

State of Texas
Combining Statement of Net Assets – Component Units (continued)

August 31, 2004 (Amounts in Thousands)*

	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	M.D. Anderson Cancer Center Services Corporation**	U.T. Southwestern Moncrief Cancer Center
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 35,694	\$ 16,434	\$ 79,002	\$ 331	\$	\$ 5,953
Investments						
Restricted:						
Loans and Contracts						
Receivables:						
Federal	13,487					
Intergovernmental	17,131					
Accounts	24					
Interest and Dividends		997	150			
Gifts						1,252
Other	6,492					1,244
Due From Primary Government						
Inventories	89					
Prepaid Items	509					
Loans and Contracts		6,873				
Other Current Assets						
Total Current Assets	73,426	24,304	79,152	331	0	8,666
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						36,801
Receivables						
Loans and Contracts						
Loans and Contracts		45,029				
Investments		24,936	20,457			
Capital Assets:						
Non-Depreciable						2,193
Depreciable	30,644					25,332
Accumulated Depreciation	(18,964)					(8,057)
Other Non-Current Assets	5,039					
Total Non-Current Assets	16,719	69,965	20,457	0	0	56,269
Total Assets	90,145	94,269	99,609	331	0	64,935

Continued on the following page

State of Texas Combining Statement of Net Assets – Component Units (continued)

August 31, 2004 (Amounts in Thousands)*

	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	M.D. Anderson Cancer Center Services Corporation**	U.T. Southwestern Moncrief Cancer Center
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	\$ 495	\$	\$ 4	\$	\$	\$ 444
Payroll						
Federal						
Other			213			
Due To Primary Government		25				
Deferred Revenue	5					
Capital Lease Obligations						39
Employees' Compensable Leave	835					181
Notes and Loans Payable	20,049					426
Revenue Bonds Payable		10,250				
Other Current Liabilities	2,745	104				
Total Current Liabilities	24,129	10,379	217	0	0	1,090
Non-Current Liabilities:						
Capital Lease Obligations						54
Employees' Compensable Leave	393					142
Notes and Loans Payable	150,872					1,361
Liabilities Payable From Restricted Assets						
Revenue Bonds Payable		26,936	99,335			
Other Non-Current Liabilities						
Total Non-Current Liabilities	151,265	26,936	99,335	0	0	1,557
Total Liabilities	175,394	37,315	99,552	0	0	2,647
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	281					17,589
Restricted for:						
Education						
Other						
Unrestricted	(85,530)	56,954	57	331		36,801 7,898
Total Net Assets	\$ (85,249)	\$ 56,954	\$ 57	\$ 331	\$ 0	\$ 62,288

Continued on the following page

* Amounts at August 31, 2004, unless otherwise indicated in Note 19.

** This fund has activity on the Combining Statement of Activities - Component Units.

State of Texas
Combining Statement of Net Assets – Component Units (continued)

August 31, 2004 (Amounts in Thousands)*

	Texas Universities Health Plan, Inc.**	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 6,662	\$ 890	\$ (3,473)	\$ 5,569	\$ 178,362	
Investments			35,232			64,833
Restricted:					78	78
Loans and Contracts						
Receivables:						
Federal						27,042
Intergovernmental						17,131
Accounts	394		1,407	865		3,369
Interest and Dividends					18	6,205
Gifts						1,252
Other	33	8,275				16,046
Due From Primary Government						1,228
Inventories						666
Prepaid Items					22	1,412
Loans and Contracts						15,285
Other Current Assets					1,722	3,395
Total Current Assets	0	7,089	9,165	33,166	8,274	336,304
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents					744	744
Investments					59,996	96,797
Receivables					99	99
Loans and Contracts					3,217	3,217
Loans and Contracts						45,029
Investments						428,512
Capital Assets:						
Non-Depreciable						5,921
Depreciable	3,386		31	193		115,095
Accumulated Depreciation	(1,419)		(22)	(151)		(45,045)
Other Non-Current Assets	19		5	510		7,546
Total Non-Current Assets	0	1,986	0	14	64,608	657,915
Total Assets	0	9,075	9,165	33,180	72,882	994,219

Concluded on the following page

State of Texas
Combining Statement of Net Assets – Component Units (concluded)

August 31, 2004 (Amounts in Thousands)*

	Texas Universities Health Plan, Inc.**	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	\$	\$	37	\$	204	\$
Payroll						19
Federal						9,565
Other						590
Due To Primary Government						25
Deferred Revenue				9,235		15,298
Capital Lease Obligations						218
Employees' Compensable Leave						3,102
Notes and Loans Payable					513	52,337
Revenue Bonds Payable					1,056	11,306
Other Current Liabilities				2,400	5	14,618
Total Current Liabilities	0	311	9,165	12,780	1,988	123,206
Non-Current Liabilities:						
Capital Lease Obligations						216
Employees' Compensable Leave						1,344
Notes and Loans Payable					1,546	166,419
Liabilities Payable From Restricted Assets						210,374
Revenue Bonds Payable					59,422	185,693
Other Non-Current Liabilities				20,400	863	21,336
Total Non-Current Liabilities	0	0	0	20,400	61,831	585,382
Total Liabilities	0	311	9,165	33,180	63,819	708,588
NET ASSETS						
Invested in Capital Assets, Net of Related Debt		1,967			42	45,394
Restricted for:						
Education						16,586
Other					3,295	40,096
Unrestricted		6,797			5,726	183,555
Total Net Assets	\$ 0	\$ 8,764	\$ 0	\$ 0	\$ 9,063	\$ 285,631

* Amounts at August 31, 2004, unless otherwise indicated in Note 19.

** This fund has activity on the Combining Statement of Activities - Component Units.

State of Texas

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)*

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
EXPENSES:					
Salaries and Wages	\$ 13,535	\$ 79	\$ 1	\$ 226	\$
Payroll Related Costs	3,170	16			58
Professional Fees and Services	2,316	69	275		6
Travel	1,856	2	5		11
Materials and Supplies	2,180	1			15
Communications and Utilities	608	1			3
Repairs and Maintenance	283				2
Rentals and Leases	1,456				38
Printing and Reproduction	2,375				1
Claims and Judgments	251				
Bad Debt Expense			195		
Cost of Goods Sold	427				
Depreciation and Amortization	614				
Other Financing Fees			247		
Public Assistance Payments				(16)	
Direct Interest Expense			316		
Interest Expense - Other					
Other Expenses	6,502	5,750	1	31	
Total Expenses	<u>35,573</u>	<u>6,676</u>	<u>266</u>	<u>391</u>	<u>0</u>
PROGRAM REVENUES:					
Charges for Services	36,773	1,065			21
Operating Grants and Contributions	648				
Total Program Revenues	<u>37,421</u>	<u>1,065</u>	<u>0</u>	<u>21</u>	<u>0</u>
Net Program Revenues (Expenses)	<u>1,848</u>	<u>(5,611)</u>	<u>(266)</u>	<u>(370)</u>	<u>0</u>
GENERAL REVENUES:					
Unrestricted Investment Earnings (Losses)		812			
Gain on Sale of Capital Assets					
Capital Contributions (Distributions)					
Other Revenues		5,450	484	398	
Total General Revenues	<u>0</u>	<u>6,262</u>	<u>484</u>	<u>398</u>	<u>0</u>
Change in Net Assets	<u>1,848</u>	<u>651</u>	<u>218</u>	<u>28</u>	<u>0</u>
Net Assets, September 1, 2003	19,478	(2,494)	934	(12)	3
Restatements					
Net Assets, September 1, 2003, as Restated	<u>19,478</u>	<u>(2,494)</u>	<u>934</u>	<u>(12)</u>	<u>3</u>
Net Assets, August 31, 2004	<u>\$ 21,326</u>	<u>\$ (1,843)</u>	<u>\$ 1,152</u>	<u>\$ 16</u>	<u>\$ 3</u>

* Amounts for the fiscal year ended August 31, 2004, unless otherwise indicated in Note 19.

** The M. D. Anderson Cancer Center Services Corporation (Corporation) relationship with its primary government changed in 2004 from a Discrete Component Unit to a Blended Component Unit. The Corporation is only being presented here to report a beginning balance and a restatement of that beginning balance. The Corporation has been restated as a Blended Component Unit in the Combining Statements for Enterprise Funds - Colleges and Universities and is not included in Note 19 due to immateriality within the Enterprise Funds.

Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	M.D. Anderson Cancer Center Services Corporation**	U.T. Southwestern Moncrief Cancer Center	Texas Universities Health Plan, Inc.
\$ 28,272 8,668	\$ 31,112 42	\$ 277 1	\$ 15 15	\$ 7 1	\$ 4,429 1,022	\$ 257 66	
19,206	1,060	1	74		151	115	
2,080	310	1	67		62		
1,460	29,582		193		441	5	
1,580	864	1	1		316	18	
2,116	2,393				557	1	
3,837	902	1	23		456	28	
557			23		11	1	
3,138	4,402	8,146	179	60	2,567	10	
						427	
	9,706		1,056		68		
715	5,241						
2,812	26						
74,441	6,615	13,736	1,826	49	2,077	260	
	86,946			498	12,157	1,188	
				0			
1,507	50,494				11,528		
83,774	53,868				2,582	17	
85,281	104,362	4,586	1,526	712	14,110	17	
10,840	17,416	(9,150)	(300)	712	0		
				214	0	1,953	
						(1,171)	
(5,228)	383			3			
32							
55,095	179			54	1,274		
49,899	0	179		57	48		
	383			0	1,322		
						(1,168)	
60,739	17,799	(9,150)	(121)	271	0	3,275	
						(2,339)	
150,033	(103,145)	66,104	178	60	6,522	59,013	
1,997	97				(6,522)		
152,030	(103,048)	66,104	178	60	0	59,013	
							2,339
\$ 212,769	\$ (85,249)	\$ 56,954	\$ 57	\$ 331	\$ 0	\$ 62,288	\$ 0

Concluded on the following page

State of Texas
Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2004 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
EXPENSES					
Salaries and Wages	\$ 1,135	\$	\$ 238	\$ 709	\$ 80,277
Payroll Related Costs	391				13,434
Professional Fees and Services	208		13,916	1,142	38,554
Travel	1		4	62	4,461
Materials and Supplies	119		45		34,041
Communications and Utilities	44				3,436
Repairs and Maintenance	19				5,371
Rentals and Leases	198		55	89	7,083
Printing and Reproduction	10				2,978
Claims and Judgments					251
Bad Debt Expense					195
Cost of Goods Sold					427
Depreciation and Amortization	441		4	526	11,702
Other Financing Fees					9,059
Public Assistance Payments					(16)
Direct Interest Expense					11,146
Interest Expense - Other				1,101	7,057
Other Expenses	214	12,322	177,401	340	214,976
Total Expenses	<u>2,780</u>	<u>12,322</u>	<u>191,663</u>	<u>3,969</u>	<u>444,432</u>
PROGRAM REVENUES					
Charges for Services	4,212	12,304	191,191	2,588	311,683
Operating Grants and Contributions	28	18	472	1,342	149,573
Total Program Revenues	<u>4,240</u>	<u>12,322</u>	<u>191,663</u>	<u>3,930</u>	<u>461,256</u>
Net Program Revenues (Expenses)	<u>1,460</u>	<u>0</u>	<u>0</u>	<u>(39)</u>	<u>16,824</u>
GENERAL REVENUES					
Unrestricted Investment Earnings (Losses)					(4,030)
Gain on Sale of Capital Assets					32
Capital Contributions (Distributions)					106
Other Revenues					61,708
Total General Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,816</u>
Change in Net Assets	<u>1,460</u>	<u>0</u>	<u>0</u>	<u>(39)</u>	<u>74,640</u>
Net Assets, September 1, 2003	7,304			8,769	215,086
Restatements				333	(4,095)
Net Assets, September 1, 2003, as Restated	<u>7,304</u>	<u>0</u>	<u>0</u>	<u>9,102</u>	<u>210,991</u>
Net Assets, August 31, 2004	<u>\$ 8,764</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,063</u>	<u>\$ 285,631</u>

* Amounts for the fiscal year ended August 31, 2004, unless otherwise indicated in Note 19.

Statistical Section



*Fort Davis
National
Historic Site*

*Big Bend
National Park*

State of Texas
Governmental Fund Revenues by Source and
Expenditures by Function
Last Ten Years*

(Amounts in Millions)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
REVENUES BY SOURCE										
Tax Collections	\$27,976	\$25,939	\$25,123	\$27,045	\$25,226	\$23,499	\$22,590	\$21,071	\$19,872	\$18,781
Federal Funds	24,382	23,017	20,310	17,319	16,170	15,316	14,209	14,043	14,068	13,925
Licenses, Fees and Permits	3,332	2,921	2,815	2,960	2,915	2,826	2,741	2,491	2,575	2,315
Interest and Other Investment										
Income	2,435	2,118	1,233	1,705	1,578	1,328	1,250	1,417	1,072	1,179
Land Income	482	298	18	46	11	10	15	13	10	8
Sales of Goods & Services	1,109	1,131	962	689	578	664	610	636	517	547
Other Revenues	2,277	2,027	1,783	1,854	1,551	2,492	906	936	686	732
Total Revenues	<u>61,993</u>	<u>57,451</u>	<u>52,244</u>	<u>51,618</u>	<u>48,029</u>	<u>46,135</u>	<u>42,321</u>	<u>40,607</u>	<u>38,800</u>	<u>37,487</u>
EXPENDITURES BY FUNCTION										
General Government	2,191	1,961	1,842	1,902	1,798	1,673	1,496	1,342	1,306	1,590
Education	16,220	15,927	15,739	15,057	14,743	12,640	12,726	12,429	11,872	11,540
Employee Benefits	12	12	15	8	8	7	7	2	2	8
Health and Human Services	25,039	24,690	22,394	19,036	17,878	17,082	16,005	16,111	16,201	15,575
Public Safety and Corrections	3,887	4,067	4,037	3,812	3,554	3,332	3,136	2,914	2,688	2,570
Transportation	2,970	3,065	3,097	4,720	4,612	3,922	3,398	3,194	3,536	2,965
Natural Resources and Recreation	844	787	713	704	672	712	652	675	594	590
Regulatory Services	371	311	270	260	243	235	228	214	213	226
Debt Service	546	727	626	1,107	971	875	1,169	771	745	1,007
Capital Outlay	2,830	2,654	2,274	389	517	548	355	380	499	1,083
Total Expenditures	<u>54,910</u>	<u>54,201</u>	<u>51,007</u>	<u>46,995</u>	<u>44,996</u>	<u>41,026</u>	<u>39,172</u>	<u>38,032</u>	<u>37,656</u>	<u>37,154</u>
EXCESS REVENUES (EXPENDITURES)										
	<u>\$ 7,083</u>	<u>\$ 3,250</u>	<u>\$ 1,237</u>	<u>\$ 4,623</u>	<u>\$ 3,033</u>	<u>\$ 5,109</u>	<u>\$ 3,149</u>	<u>\$ 2,575</u>	<u>\$ 1,144</u>	<u>\$ 333</u>

* This table is comprised of the following funds: General, Special Revenue, Debt Service, Capital Projects, and Permanent.

Source: State of Texas Financial Statements 1995-2004.

State Tax Collections Per Capita Last Ten Years*

(Amounts in Millions, Except State Tax Collections Per Capita and Percentage Data)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Tax Collections	\$ 27,976	\$ 25,939	\$ 25,123	\$ 27,045	\$ 25,226	\$ 23,499	\$ 22,590	\$ 21,071	\$ 19,872	\$ 18,781
Percentage Tax Collection Change From Prior Year	7.85%	3.25%	(7.11)%	7.21%	7.35%	4.02%	7.21%	6.03%	5.81%	3.67%
Resident Population	22.49	22.12	21.74	21.34	20.95	20.56	20.16	19.74	19.30	18.96
Percentage Population Change From Prior Year	1.67%	1.75%	1.87%	1.86%	1.90%	1.98%	2.13%	2.28%	1.79%	2.10%
State Tax Collections Per Capita	\$ 1,244	\$ 1,173	\$ 1,156	\$ 1,267	\$ 1,204	\$ 1,143	\$ 1,121	\$ 1,067	\$ 1,030	\$ 991

* This table is comprised of the following funds: General, Special Revenue, Debt Service, and Capital Projects.

Source: Tax collections figures taken from the 1995-2004 State of Texas Financial Statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

State of Texas General Bonded Debt Per Capita Last Ten Years*

(Amounts in Millions, Except General Bonded Debt Per Capita and Percentage Data)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Bonded Debt (General Obligation Bonds Only)	\$ 5,835	\$ 5,784	\$ 5,756	\$ 5,271	\$ 5,143	\$ 4,920	\$ 5,000	\$ 4,931	\$ 4,962	\$ 4,570
Percentage Bonded Debt Change From Prior Year	0.88%	0.49%	9.20%	2.49%	4.53%	(1.60)%	1.40%	(0.62)%	8.58%	15.32%
Resident Population	22.49	22.12	21.74	21.34	20.95	20.56	20.16	19.74	19.30	18.96
Percentage Population Change From Prior Year	1.67%	1.75%	1.87%	1.86%	1.90%	1.98%	2.13%	2.28%	1.79%	2.10%
General Bonded Debt Per Capita	\$ 259	\$ 261	\$ 265	\$ 247	\$ 245	\$ 239	\$ 248	\$ 250	\$ 257	\$ 241

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators, and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt figures taken from the 1995-2004 State of Texas Financial Statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years.

State of Texas
Ratio of Annual Debt Service Requirements
for General Bonded Debt to Total
Governmental Fund Type Expenditures
Last Ten Years*

(Amounts in Thousands, Except Percentage Data)

Fiscal Year	Total Debt Service**	Total Expenditures	Ratio of Debt Service to Expenditures
2004	\$481,572	\$54,910,145	0.88%
2003	\$568,446	\$54,201,162	1.05%
2002	\$590,500	\$51,012,761	1.16%
2001	\$537,040	\$46,995,249	1.14%
2000	\$514,929	\$44,995,790	1.14%
1999	\$538,212	\$41,025,727	1.31%
1998	\$508,415	\$39,172,095	1.30%
1997	\$495,515	\$38,031,899	1.30%
1996	\$446,456	\$37,656,055	1.19%
1995	\$428,446	\$37,154,145	1.15%

* This table is comprised of the following funds: General, Special Revenue, Debt Service, Capital Projects, and Permanent.

** Debt Service requirements include scheduled principal and interest payments. Payments for refundings are excluded.
 The following bonds are included: Veterans Bonds; Water Bonds; Park Developments Bonds; College Student Loan Bonds; Higher Education Constitutional Bonds; and Public Finance Authority Bonds.

Source: 1995-2004 State of Texas Financial Statements.

**State of Texas
Revenue Bond Coverage
Last Ten Years**

(Amounts in Thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Total Pledged Sources and Other Sources*	\$7,179,042	\$6,512,818	\$7,356,581	\$5,456,773	\$5,017,262	\$4,527,904	\$4,063,737	\$3,631,993	\$3,902,440	\$3,483,757
Operating and Capital Outlay Expenditures/ Expenses	888,355	548,010	210,734	97,341	89,534	75,865	101,765	106,857	126,377	128,275
Net Revenue Available for Debt Service	<u>\$6,290,687</u>	<u>\$5,964,808</u>	<u>\$7,145,847</u>	<u>\$5,359,432</u>	<u>\$4,927,728</u>	<u>\$4,452,039</u>	<u>\$3,961,972</u>	<u>\$3,525,136</u>	<u>\$3,776,063</u>	<u>\$3,355,482</u>
Scheduled Debt Service Payments:										
Principal	\$ 543,779	\$ 582,368	\$ 325,404	\$ 306,937	\$ 287,799	\$ 275,543	\$ 251,852	\$ 248,574	\$ 216,887	\$ 222,021
Interest	529,684	415,690	404,868	393,679	391,527	352,989	351,610	380,867	345,927	363,995
Total Debt Service	<u>\$1,073,463</u>	<u>\$ 998,058</u>	<u>\$ 730,272</u>	<u>\$ 700,616</u>	<u>\$ 679,326</u>	<u>\$ 628,532</u>	<u>\$ 603,462</u>	<u>\$ 629,441</u>	<u>\$ 562,814</u>	<u>\$ 586,016</u>
Coverage	5.86	5.97	9.79	7.65	7.25	7.08	6.57	5.60	6.71	5.73

* Includes operating revenues, interest earned on investments, other pledged revenues, and other sources.

Source: 1995-2004 State of Texas Annual Financial Statements.

State of Texas

Texas Gross State Product by Industry, 1998-2002

(Amounts in Millions of Dollars)

NAICS* Industry	1998	1999	2000	2001	2002
Agriculture, Forestry, Fishing, and Hunting % Change	\$ 6,077 11.5	\$ 6,778 11.5	\$ 6,500 (4.1)	\$ 6,685 2.8	\$ 6,749 1.0
Natural Resources and Mining % Change	21,943 20.6	26,462 20.6	43,520 64.5	42,576 (2.2)	37,269 (12.5)
Construction % Change	28,820 8.3	31,217 9.6	34,220 9.6	35,679 4.3	36,021 1.0
Manufacturing % Change	98,878 (6.2)	92,766 (6.2)	94,227 1.6	94,173 (0.1)	91,988 (2.3)
Trade, Transportation, and Utilities % Change	136,212 8.1	147,262 6.4	156,629 6.4	158,039 0.9	166,628 5.4
Information % Change	30,954 8.6	33,604 7.9	36,245 7.9	37,340 3.0	37,785 1.2
Financial Activities % Change	98,347 9.4	107,553 7.8	115,968 7.8	118,503 2.2	131,545 11.0
Professional and Business Services % Change	63,169 9.1	68,908 5.9	72,964 5.9	78,586 7.7	80,308 2.2
Educational and Health Services % Change	37,151 5.8	39,297 7.7	42,315 7.7	46,118 9.0	50,649 9.8
Leisure and Hospitality Services % Change	19,996 9.1	21,806 6.2	23,158 6.2	23,862 3.0	24,808 4.0
Other Private Services % Change	15,833 4.1	16,486 6.3	17,524 6.3	18,702 6.7	18,986 1.5
Government, including Schools % Change	71,036 5.9	75,239 7.1	80,572 7.1	84,579 5.0	90,719 7.3
TOTAL % Change	\$628,416 ____	\$667,378 ____	\$723,842 ____	\$744,842 ____	\$773,455 ____
TOTAL (In 2000 Chained Dollars) % Change	\$665,263 ____	\$696,809 ____	\$723,842 ____	\$729,097 ____	\$755,872 ____

* North American Industry Classification System

The Texas total GSP in nominal dollars for 2003 was \$813.112 billion, but detail by industry sector is unavailable.

Source: U. S. Bureau of Economic Analysis. The Bureau released GSP by NAICS industries for states for the first time in December 2004. No data before 1998 were released. The numbers are subject to revision.

State of Texas

Texas Salary Earnings by Industry, 1995–2004

(Amounts in Millions)

Industry	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Agriculture, Forestry, and Fishing % Change	\$ 1,075 (2.7)	\$ 1,086 14.0	\$ 1,163 7.1	\$ 1,204 3.5	\$ 1,379 14.5	\$ 1,389 0.7	\$ 1,698 22.3	\$ 1,690 (0.5)	\$ 1,769 4.7	\$ 1,782 0.8
Natural Resources and Mining % Change	8,391 1.6	8,879 5.8	10,128 14.1	10,814 6.8	10,240 (5.3)	11,518 12.5	12,452 8.1	12,064 (3.1)	11,861 (1.7)	13,572 14.4
Construction % Change	11,911 11.3	13,310 11.7	14,606 9.7	16,579 13.5	18,359 10.7	20,433 11.3	21,213 3.8	21,090 (0.6)	21,365 1.3	22,276 4.3
Manufacturing % Change	35,439 5.1	37,676 6.3	40,898 8.6	45,352 10.9	46,387 2.3	49,476 6.7	47,796 (3.4)	44,740 (6.4)	44,342 (0.9)	46,265 4.3
Trade, Transportation, and Utilities % Change	45,697 5.3	48,886 7.0	53,659 9.8	59,633 11.1	65,386 9.6	71,761 9.7	72,493 1.0	70,105 (3.3)	70,202 0.1	73,802 5.1
Information % Change	10,768 6.4	11,096 3.0	11,965 7.8	12,761 6.7	13,688 7.3	14,378 5.0	14,710 2.3	13,344 (9.3)	12,656 (5.2)	13,232 4.6
Financial Activities, incl. Real Estate % Change	15,443 3.8	17,006 10.1	18,939 11.4	21,540 13.7	23,064 7.1	25,276 9.6	27,479 8.7	27,833 1.3	28,884 3.8	30,719 6.4
Professional and Business Services % Change	23,485 8.4	26,251 11.8	30,609 16.6	35,239 15.1	38,971 10.6	43,916 12.7	47,006 7.0	46,213 (1.7)	46,349 0.3	48,746 5.2
Educational and Health Services % Change	18,195 5.0	19,971 9.8	22,360 12.0	24,487 9.5	26,165 6.9	28,578 9.2	31,026 8.6	33,532 8.1	35,201 5.0	37,623 6.9
Leisure, Hospitality, and Other Services % Change	14,240 4.2	15,419 8.3	17,077 10.7	18,713 9.6	20,248 8.2	22,162 9.5	23,669 6.8	24,796 4.8	25,129 1.3	26,464 5.3
Local, State, and Federal Government % Change	40,762 4.4	42,261 3.7	44,248 4.7	46,561 5.2	49,060 5.4	52,687 7.4	55,187 4.7	58,958 6.8	61,836 4.9	63,357 2.5
TOTAL** % Change	\$225,403 5.4	\$241,840 7.3	\$265,651 9.8	\$292,882 10.3	\$312,948 6.9	\$341,573 9.1	\$354,728 3.9	\$354,364 (0.1)	\$359,592 1.5	\$377,837 5.1

* 2004 numbers are estimated from incomplete data.

** Totals may not sum exactly because of rounding.

Source: U. S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts (2004 estimates). The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

Texas and U.S. Total Personal Income, Population, and Per Capita Income, 1995-2004

Year	Total Personal Income (Million \$)				Population (Thousands)			Per Capita Income (\$)				
	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
1995	398,192	5.8%	6,152,275	5.0%	18,959	2.1%	266,278	1.2%	21,003	3.5%	23,105	3.7%
1996	427,811	7.4%	6,520,550	6.0%	19,340	1.8%	269,394	1.2%	22,120	5.3%	24,204	4.8%
1997	466,182	9.0%	6,915,125	6.1%	19,740	2.3%	272,647	1.2%	23,616	6.8%	25,363	4.8%
1998	507,682	8.9%	7,422,975	7.3%	20,158	2.1%	275,854	1.2%	25,186	6.6%	26,909	6.1%
1999	539,661	6.3%	7,802,425	5.1%	20,558	2.0%	279,040	1.2%	26,250	4.2%	27,962	3.9%
2000	593,139	9.9%	8,429,675	8.0%	20,949	1.9%	282,178	1.1%	28,313	7.9%	29,874	6.8%
2001	619,483	4.4%	8,713,075	3.4%	21,341	1.9%	285,094	1.0%	29,028	2.5%	30,562	2.3%
2002	623,697	0.7%	8,878,900	1.9%	21,737	1.9%	287,974	1.0%	28,693	(1.2)%	30,832	0.9%
2003	643,129	3.1%	9,161,800	3.2%	22,119	1.8%	290,810	1.0%	29,077	1.3%	31,504	2.2%
2004*	677,906	5.4%	9,628,700	5.1%	22,492	1.7%	293,602	1.0%	30,139	3.7%	32,795	4.1%

* 2004 personal income estimates used three quarters of actual data. The fourth quarter is estimated using the average growth rate during the first three quarters.

Source: U.S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts. The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

Texas and U.S. Employment and Unemployment Rates, 1995-2004

(Thousands of Jobs and Percent)

Year	Nonfarm Employment			Unemployment Percentage Rate		
	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
1995	8,023	3.5%	117,306	2.6%	6.0	5.6
1996	8,256	2.9%	119,699	2.0%	5.6	5.4
1997	8,608	4.3%	122,767	2.6%	5.4	4.9
1998	8,940	3.9%	125,924	2.6%	4.8	4.5
1999	9,160	2.5%	128,992	2.4%	4.6	4.2
2000	9,433	3.0%	131,791	2.2%	4.2	4.0
2001	9,519	0.9%	131,837	0.0%	4.8	4.8
2002	9,423	(1.0)%	130,343	(1.1)%	6.4	5.8
2003*	9,373	(0.5)%	129,937	(0.3)%	6.8	6.0
2004*	9,450	0.8%	131,264	1.0%	5.8	5.5

* 2003 and 2004 numbers are subject to benchmark revisions. 2004 numbers include an estimate for December.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts, and U.S. Bureau of Labor Statistics.
Historical data have been revised.

State of Texas Residential and Nonresidential Construction, 1995-2004

Calendar Year	Single Family Housing Starts	Multiple Family Housing Starts	Total Residential Housing Starts	Nonresidential Construction (Thous. Sq. Ft)
1995	79,227	33,345	112,572	93,293
1996	90,317	31,236	121,553	100,663
1997	88,064	43,666	131,730	120,381
1998	108,686	52,453	161,139	161,938
1999	106,993	41,257	148,250	158,837
2000	111,625	32,620	144,245	162,981
2001	117,776	29,297	147,073	159,422
2002	125,072	34,061	159,133	132,119
2003	136,713	38,400	175,113	130,550
2004*	147,295	33,656	180,951	123,491

* Values for 2004 are a combination of actual data and estimates for unavailable quarters from the Comptroller's econometric forecasting model.

Source: U. S. Bureau of the Census, Global Insight, Inc., the Real Estate Center at Texas A&M University, and Texas Comptroller of Public Accounts. Historical data in this table have been revised due to changes in methodology or seasonal adjustment revisions.

State of Texas Market Value of Taxable Property, 1994-2003*

(Billions of Dollars)

Year	Value	% Change
1994	\$ 636.7	1.4%
1995	\$ 660.5	3.7%
1996	\$ 661.2	0.1%
1997	\$ 708.9	7.2%
1998	\$ 747.4	5.4%
1999	\$ 793.0	6.1%
2000	\$ 863.1	8.8%
2001	\$ 943.3	9.3%
2002	\$ 1,000.7	6.1%
2003	\$ 1,057.9	5.7%

* Market Value numbers for 2004 were not yet available at the time of publication.

Source: Property Tax Division, Texas Comptroller of Public Accounts.

Numbers reflect taxable value of real and personal property as estimated for school district funding.

State of Texas
Texas Banking Activity, 1995-2004
All Commercial Banks Headquartered in Texas
(Millions of Dollars)

Year	Total Assets	Percent Change in Assets	Total Deposits*	Percent Change	Texas Deposits** (June 30)	Percent Change	Total Equity Capital	Total Loans	Noncurrent Loans	Number of Reporting Institutions
1995	\$202,718	7.8%	\$155,286	1.2%	\$145,738	0.5%	\$16,373	\$112,394	\$858	935
1996	\$205,184	1.2%	\$168,218	8.3%	\$154,517	6.0%	\$17,259	\$104,950	\$929	877
1997	\$235,098	14.6%	\$191,791	14.0%	\$165,017	6.8%	\$19,416	\$119,668	\$900	838
1998	\$179,694	(23.6)%	\$149,093	(22.3)%	\$171,412	3.9%	\$15,257	\$94,152	\$810	798
1999	\$181,144	0.8%	\$143,242	(3.9)%	\$175,249	2.2%	\$14,742	\$99,584	\$901	753
2000	\$166,352	(8.2)%	\$133,164	(7.0)%	\$181,505	3.6%	\$14,297	\$96,236	\$793	709
2001	\$144,677	(13.0)%	\$120,866	(9.2)%	\$207,622	14.4%	\$13,678	\$78,286	\$773	686
2002	\$157,396	8.8%	\$129,088	6.8%	\$217,601	4.8%	\$15,402	\$84,225	\$772	669
2003	\$136,452	(13.3)%	\$112,803	(12.6)%	\$250,913	15.3%	\$13,139	\$74,011	\$695	653
2004***	\$143,959	5.5%	\$118,625	5.2%	\$266,987	6.4%	\$13,612	\$81,168	\$619	647

* Total deposit losses in 1998, 2000, 2001, and 2003 represent the merger or acquisition of banks previously headquartered in Texas.

** Texas deposits in all FDIC-insured commercial banks, regardless of headquarters location.

*** Data for all years are for December 31st, unless otherwise specified. In 2004, all data are for June 30, 2004.

Source: Federal Deposit Insurance Corporation (FDIC).

State of Texas
Total Retail Sales, 1995-2004

Year	Million \$	Percent Change
1995	\$198,825	7.2%
1996	\$216,302	8.8%
1997	\$232,711	7.6%
1998	\$244,911	5.2%
1999	\$265,073	8.2%
2000*	\$298,614	12.7%
2001*	\$307,070	2.8%
2002*	\$296,008	(3.6)%
2003*	\$318,570	7.6%
2004**	\$156,534	10.7%

* 2000, 2001, 2002, and 2003 have been revised.

** First half of 2004 and the percentage change over the first half of 2003.

Source: Texas Comptroller of Public Accounts.

**State of Texas
Texas Public School Enrollment
By Grade and Ethnic Grouping
1993-94 Through 2003-04**

Academic Year	Grade				All Grades	Percent Increase
	K-3	4-6	7-9	10-12		
1993-94	1,145,701	854,150	869,217	618,748	3,487,816	1.7%
1994-95	1,153,255	866,810	894,984	633,386	3,548,435	1.7%
1995-96	1,171,927	874,527	912,884	655,075	3,614,413	1.9%
1996-97	1,192,932	887,512	931,356	685,413	3,697,213	2.3%
1997-98	1,210,804	891,245	944,175	712,047	3,758,271	1.7%
1998-99	1,227,343	901,404	954,700	726,895	3,810,342	1.4%
1999-00	1,236,618	915,189	966,797	737,088	3,855,692	1.2%
2000-01	1,249,519	934,197	976,226	756,488	3,916,430	1.6%
2001-02	1,265,391	953,774	993,954	780,343	3,993,462	2.0%
2002-03	1,287,167	966,841	1,017,094	805,022	4,076,124	2.1%
2003-04	1,311,545	972,927	1,029,234	820,172	4,133,878	1.4%
Change since 1993-94	165,844	118,777	160,017	201,424	646,062	18.5%
Percent of Total Increase	26%	18%	25%	31%	100%	
Academic Year	American Indian	Asian	Black	Hispanic	Caucasian	Total*
1993-94	8,150	80,511	515,475	1,282,849	1,721,277	3,608,262
1994-95	8,803	83,416	526,757	1,325,768	1,732,427	3,677,171
1995-96	9,566	86,706	536,386	1,375,896	1,739,613	3,748,167
1996-97	9,927	91,051	549,667	1,435,521	1,750,930	3,837,096
1997-98	10,578	95,136	560,405	1,478,984	1,755,385	3,900,488
1998-99	11,925	100,143	568,757	1,526,713	1,746,896	3,954,434
1999-00	11,293	103,686	576,977	1,582,538	1,727,733	4,002,227
2000-01	12,120	108,605	586,712	1,650,560	1,713,436	4,071,433
2001-02	12,777	116,243	598,359	1,735,916	1,701,806	4,165,101
2002-03	13,168	122,503	609,442	1,820,010	1,694,741	4,259,864
2003-04	13,791	127,092	616,050	1,894,108	1,676,987	4,328,028
Change since 1993-94	5,641	46,581	100,575	611,259	(44,290)	719,766
Percent of Total Increase	1%	6%	14%	85%	(6)%	100%

* Ethnic counts include children in Early Education and Pre-Kindergarten programs not shown.

Percentages may not sum exactly due to rounding.

Source: Texas Education Agency.

State of Texas Higher Education Enrollment, Last Ten Years

Institutions	Fall 1995	Fall 1996	Fall 1997	Fall 1998	Fall 1999	Fall 2000	Fall 2001	Fall 2002	Fall 2003	Fall 2004*	Percentage Change 1995 to 2004
Public Universities	400,633	397,293	396,265	398,258	407,074	414,626	430,770	456,209	473,511	483,645	21%
Independent Senior Colleges and Universities	95,276	96,685	98,873	102,489	104,179	107,681	111,259	113,722	117,484	116,650	22%
Public Community and State Colleges	401,049	407,556	413,631	412,684	426,519	438,730	468,201	509,201	529,843	554,586	38%
Public Technical Institutes	7,557	8,008	8,468	8,724	8,804	9,268	10,112	10,721	10,724	11,253	49%
Independent Junior Colleges	668	751	767	673	609	634	670	680	763	698	4%
Public Medical, Dental and Health-Related Units	14,629	15,378	15,333	15,374	12,410	12,607	13,100	13,804	14,435	15,136	3%
Independent Medical, Dental and Health-Related Units	1,615	1,156	1,174	1,162	1,186	1,199	1,206	1,263	1,287	2,563	59%
Total Per Year	<u>921,427</u>	<u>926,827</u>	<u>934,511</u>	<u>939,364</u>	<u>960,781</u>	<u>984,745</u>	<u>1,035,318</u>	<u>1,105,600</u>	<u>1,148,047</u>	<u>1,184,531</u>	<u>29%</u>

* 2004 numbers are based on preliminary data.

Source: Texas Higher Education Coordinating Board.

Number of Higher Education Institutions – 2004

Public Universities	35
Independent Senior Colleges and Universities	39
Public Community and State Colleges	53
Public Technical Institutes	4
Independent Junior Colleges	2
Public Medical Schools and Health Science Centers	9
Independent Medical and Dental Schools	3
 Total Institutions for 2004	 <u>145</u>

Source: Texas Higher Education Coordinating Board.

Texas Comptroller of Public Accounts
Publication #96-471. Printed February 2005.

For additional copies, write:
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111 E. 17th Street
Austin, Texas 78774-0100